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Yearbook of U.S.-Japan Economic Relations in 1982

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Foreword

The Japan Economic Institute of America is pleased to present the fifth edition of our YEARBOOK OF U.S. -JAPAN ECONOMIC RELATIONS, a summary of bilateral economic events and statistical data from 1982 intended to supplement our weekly and monthly publications.

We have been encouraged by positive reader reaction to the first four editions of the YEARBOOK. Based upon your suggestions, Dr. Edward Lincoln, JEI Executive Vice President and Director of Economic Studies, has made a few changes in this edition, while retaining the basic format. Please continue to forward ideas for improvement for our consideration during preparation of the sixth edition.

JEI thanks Japan's Ministry of Foreign Affairs for providing the special funding that made continuation of this important project possible.

Robert C. Angel
President

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Preface

This is the fifth year of our annual review of the economic relationship between Japan and the United States. This yearbook is unique in its focus on the bilateral relationship and in its consideration of both the economic developments of the year and the policy discussions and decisions that shaped the nature of bilateral economic activity. Few new issues were raised during the year, but disputes carried over from 1981 resulted in a discouraging atmosphere of antagonism. These problems, plus the more cooperative aspects of the relationship are covered in detail in this volume. Despite the problems, Japan and the United States continued to have a very close, vital economic connection, evidenced by the large volume of trade flowing in both directions and the expanding bilateral direct investment by companies of both countries.

JEI welcomes all comments and corrections from our readers and we will endeavor to continue improvements in the future.

Edward J. Lincoln
Director of Economic Studies

June 1983

Part I
Chronology

January

3 Marubeni Corporation and Washington State sign an economic cooperation agreement designating Marubeni to help the State promote exports to Japan.

8 The 18th U.S.-Japan Security Treaty consultations are held in Tokyo and an agreement is reached to initiate a formal study on bilateral mutual defense in the Far East.

8 Senators Danforth and Chafee confer with Foreign Minister Sakurauchi on trade issues.

11 U.S.-Japan aviation talks are held in Tokyo. No progress is made on a new civil aviation agreement.

11 Ministry of International Trade and Industry (MITI) Minister Abe meets with U.S. congressional representatives on access to the Japanese market.

12 Ambassador Mansfield meets with the Liberal Democratic Party (LDP) special committee on international trade.

15-16 Government trade representatives from the United States, Japan, the European Community and Canada hold talks in Florida.

17 Finance ministers and governors of central banks from Japan, the United States, West Germany, France and England meet in Paris to discuss the international economic situation.

18 MITI Minister Abe holds a series of meetings with President Reagan, Secretary of State Haig, United States Trade Representative Brock, Council of Economic Advisors Chairman Weidenbaum and Energy Secretary Edwards.

18 Japan announces a $13.4 billion trade surplus with the United States in 1981.

19 MITI Minister Abe confers with business leaders in New York on bilateral economic issues.

18-20 Consultations on the Medfly issue are held in Tokyo.

19-20 COCOM members, including Japan, meet in Paris to discuss trade restrictions against the Soviet Union.

21 At the Liberal Democratic Party convention, Prime Minister Suzuki pushes for a solution to international trade conflicts.

25 The Diet reconvenes in Tokyo.

30 Japan approves a market-access package that includes the elimination or reduction of 67 nontariff barriers. Reaction from Washington is cool.

30 Japan announces a $4.7 billion current account surplus in 1981; the first surplus in three years.

February

1 U.S. Trade Representative (USTR) Brock proposes under the General Agreement on Tariffs and Trade (GATT) negotiations on service trade and investment while in Geneva.

1-3 A bilateral meeting on economic aid policy is held in Tokyo.

4 Sens. Heinz, Dole and Symms propose legislation on trade reciprocity. This is later overtaken by Senator Danforth's bill.

4 The 4th Japan-Canada joint economic conference ends in Tokyo. Japanese and Canadian participants oppose the reciprocity approach to international trade being discussed in the United States.

9 USTR Brock states at the Foreign Press Club in Washington that Japan's action on nontariff barriers (announced in January) should be extended beyond merchandise trade.

10 Sen. Danforth introduces trade reciprocity legislation. Rep. Dingell proposes similar legislation in the House. Congressional activity on reciprocity focuses primarily on this bill.

10 USTR Brock and Commerce Secretary Baldrige testify before the Joint Economic Committee on U.S.-Japan trade relations.

11 Sixty-eight American congressmen sign a letter to Prime Minister Suzuki urging a greater defense build-up.

18 Mexico devalues the peso by 30 percent. As large creditors, both Japan and the United States are concerned over Mexico's problems.

20-25 Senior LDP member, Masumi Esaki, visits Washington to meet with President Reagan and cabinet officials on trade issues. He is told more trade concessions are necessary.

23 Japan announces further economic sanctions against the Soviet Union and Poland in reaction to the Polish crisis, following the U.S. lead.

21 JETRO announces that Japan in 1981 ran a trade deficit with China—the first since 1964.

March

1 Ambassador Okawara and Prime Minister Suzuki confer in Tokyo on how to respond to U.S. pressure for further trade concessions.

1 The House Subcommittee on Asian and Pacific Affairs begins a long series of hearings on the overall U.S.-Japan relationship.

4 Undersecretary of Commerce Olmer and Deputy USTR David Macdonald testify on Japanese exports to the Senate Finance Subcommittee.

8 LDP Secretary General Nikaido and Deputy USTR Macdonald meet in Tokyo.

8 Toyota Motor Corporation and General Motors Corporation begin talks on joint car production in United States.

9 FY 1982 Budget passes the lower house of the Diet, providing a 6.2-percent increase in general expenditures over the previous year.

9 Hearings are held by the House Subcommittee on Asian and Pacific Affairs on U.S.-Japan relations.

9-10 The U.S.-Japan sub-cabinet level group, headed by Deputy USTR Macdonald and Hiromu Fukada of the Ministry of Foreign Affairs meet for the third time.

10 Japan and the United States agree to set up a working group to discuss 22 agricultural commodities that have residual import restrictions in Japan. The group holds its first meeting in April.

11 The U.S. Court of Customs and Patent Appeals rules the Commerce Department's negotiated solution to a ten-year old TV dumping dispute is valid.

11 The American Chamber of Commerce in Japan (ACCJ) releases a report on Japan's nontariff barriers.

15-19 U.S.-Japan aviation talks resume in Palo Alto, California. Discussions collapse once again.

16 LDP's envoy Esaki confers with European leaders on trade issues.

20-25 Foreign Minister Sakurauchi confers with President Reagan, Cabinet officials and congressional leaders in Washington.

24 USTR Brock, Commerce Secretary Baldrige testify before Senate subcommittee on reciprocity issue, calling for some changes in the legislation.

24 House Subcommittee on Asian and Pacific Affairs holds another round of hearings on U.S.-Japan relations.

25-31 Secretary of Defense Caspar Weinberger presses Tokyo on increasing its defense role while on a visit to Japan and Korea.

29 MITI formally announces that car exports for FY 1982 will be held to a 1.68 million level, the same as in the first year of voluntary restraints.

April

1 A new banking law in Japan goes into effect that affords foreign banks the same treatment as domestic banks.

4-6 The Trilateral Commission meets in Tokyo.

5 The Diet passes FY 1982 budget. The tight lid on expenditures means little increase in fiscal stimulus for the economy.

11 MITI releases a revised prediction stating that Japan will be only 27% dependent on oil for its energy needs in the year 2000.

12 The United States forwards an appeal to the GATT over Japanese agricultural import quotas.

14 Japan agrees to GATT negotiations on agricultural import quotas.

14-18 French President Mitterand visits Tokyo.

14 The Japanese government holds a senior-level interagency meeting on how to deal with international trade issues.

19-20 The U.S.-Japan Trade Facilitation Committee meets in Washington.

20 The Japan Productivity Center announces labor productivity in Japan rose by only 3.5 percent in FY 1981, a sign of the slowing economy.

20 U.S. government officials open discussions with Japan on agricultural import barriers, paving the way for negotiations in October.

22 Prime Minister Suzuki confers with Ambassador Okawara in Tokyo on problems with the United States concerning Japan's agricultural import restrictions.

22 The Liberal Democratic Party's agricultural caucuses pass a resolution opposing liberalization of agricultural imports.

22 USTR and MITI agree to establish a high-technology task force to explore ways to reduce bilateral economic conflict in this area.

22-May 5 Vice President Bush tours Japan, Singapore, Australia and New Zealand.

26 Director General Ito of the Defense Agency confers with Ambassador Okawara on U.S.-Japan defense issues.

27 Doyukai (Japan Committee for Economic Development) advocates liberalization of agricultural imports.

27 The House Subcommittee on East Asia and Pacific Affairs holds hearings on the Japanese economy.

30 The United Nations approves the Law of the Sea Treaty.

May

1 The Prime Minister's Office announces a postwar record high of 2.2 percent unemployment in FY 1981.

3 Bilateral leather trade talks end without any result.

3 Houdaille Industries, a Florida machine tool builder, files a major case calling for denial of investment tax credits on purchases of Japanese-made machine tools because of alleged unfair practices in Japan. It marks the beginning of the campaign against Japan's industrial policy.

3 The Foreign Ministry releases a survey on American views of Japan, finding recognition of Japan as important to the United States, and concern over trade issues.

5 Meeting on agricultural liberalization held in Geneva.

6 Senate Trade Subcommittee holds hearings on reciprocity.

6 The State Department proposes supplementary list for COCOM export restrictions against the Soviet Union.

10-11 The Organization for Economic Cooperation and Development (OECD) meets in Paris, where Japan joins in criticism of high U.S. interest rates.

10-23 Japanese financial mission goes to Europe to explain Japan's capital and security markets.

10-13 The Pacific Basin Economic Council, a private sector group, meets in Japan.

12 Finance ministers from ten industrially advanced nations meet in Helsinki.

12-13 IMF convenes in Helsinki.

12-13 The United States, the European Community, Japan and Canada hold trade talks in Paris following the OECD meeting.

17 Foreign Minister Sakurauchi informs USTR that Japan will not include agricultural products in its forthcoming market-access announcement.

20 The Japanese Cabinet meets to discuss comprehensive security measures including sea-lane defense.

24 The International Energy Agency meets in Paris and expresses skepticism about any long-term easing of oil problems, despite the current glut.

24-25 The United States and Japan hold a working-level meeting on market access and trade issues, concentrating on agriculture.

25 Japan's Ministry of Agriculture ends restrictions on imports of certain fruits and vegetables from California because the Medfly infestation is over.

27 The Japanese government announces a second major market access package which includes tariff reductions and numerous other actions on nontariff barriers. The reception in Washington is better than was the case in January when the first package was announced.

June

4 President Reagan and Prime Minister Suzuki meet in Paris prior to the multilateral summit.

5 A provisional three-year U.S.-Japan aviation agreement is finally reached, narrowly avoiding a serious conflict.

4-6 The Versailles summit between seven Western industrialized nations is held; the discussion centers on economic policy and trade.

8 The Lockheed trial in Japan finds two politicians guilty of bribery charges. The trial of former Prime Minister Tanaka is next in the docket and promises to be a major political problem.

8 The United Nations special session on disarmament convenes.

9 Prime Minister Suzuki addresses the UN special session.

9 Foreign Minister Sakurauchi and Soviet Foreign Minister Gromyko meet in New York.

10 The House Transportation Subcommittee passes a local content bill for autos, as local content takes over from reciprocity as the focus of congressional concern over trade relations with Japan.

11 Economic Planning Agency releases preliminary FY 1981 GNP data, showing only a 2.7 percent inflation-adjusted growth rate.

15 The Senate Judiciary Committee passes the export trading company bill.

15 The U.S. Supreme Court hands down a decision on the Sumitomo job discrimination case, denying any exemption from U.S. civil rights laws on the basis of the treaty on commerce and navigation.

15 U.S.-Japan fishery negotiations are held in Washington.

16 Prime Minister Suzuki delivers a major speech in Honolulu, endorsing the concept of strengthening ties in the Pacific Basin.

18 MITI Minister Abe confers with U.S. Ambassador Mansfield about U.S. sanctions on the Soviet Union and their effect on Japan.

20-25 Science and Technology Director General Nakagawa visits Washington to discuss nuclear fuel reprocessing, stressing Japan's desire to develop its capability in this area.

22 The Justice Department announces the arrest of 20 Hitachi and Mitsubishi Electric employees on industrial espionage charges, accusing them of attempting to steal proprietary information from IBM.

23 The General Accounting Office (GAO) releases its report on Japanese industrial policy.

23 USTR Brock urges Japan to raise interest rates to match U.S. levels. The disparity in U.S.-Japan interest rates is a major determinant in the weak value of the yen.

25 Secretary of State Alexander Haig announces his resignation. George P. Schultz is nominated as his replacement.

29 A grand jury in San Francisco indicts Hitachi employees in the IBM industrial espionage case. The press in Japan plays up the issue as unfair.

July

1 The Hitachi employees plead not guilty in the IBM industrial espionage case with the trial set for late August.

6 The OECD projects a 2 percent economic growth rate for Japan in 1982, in a rather pessimistic midyear outlook.

7 The Japanese Diet debates the IBM industrial espionage case and the fairness of FBI techniques.

7-9 The first meeting of the U.S.-Japan high technology working group is held in Honolulu.

8-9 The U.S.-Japan Businessmen's Conference is held in Japan.

9 The Suzuki Cabinet approves guidelines for FY 1983 budget, calling for a 5-percent cut in discretionary spending.

9-10 Japan-EC consultations are held under the Article 23 complaint filed with GATT by the EC.

9-12 The Justice and State Departments send officials to Tokyo to discuss the IBM industrial espionage case, stressing that it is completely unrelated to overall economic relations.

13 Secretary of State designate Shultz, at his confirmation hearings, urges Japan to simplify its import inspection procedures.

19 The Federal Reserve lowers the discount rate from 12 to 11.5 percent, marking the beginning of a fall in U.S. interest rates. The yen fails to climb in value until November, though.

20 A San Francisco grand jury indicts Mitsui & Co. employees on steel dumping charges.

20 Ambassador Okawara urges the State Department to reverse the U.S. technology embargo against the Soviet Union, joining the chorus of complaints from other allies.

20 The International Whaling Commission severely restricts the Japanese quota. Whaling remains a sore point in relations.

21 Mitsui & Co. pleads guilty to charges it tried to circumvent the steel trigger price mechanism by making false statements to U.S. Customs.

22 General Electric sues SONY for patent violation.

23 The International Whaling Commission votes to ban commercial whaling as of 1986, a decision that Japan protests.

23 Prime Minister Suzuki hints Japan's defense spending could exceed 1 percent of GNP.

26 The U.S. Justice Department begins investigation of Japanese semiconductor makers on charges of forming a cartel to insure high prices. No charges are brought.

30 The Federal Reserve lowers the discount rate again from 11.5 to 11 percent as U.S. interest rates continue to fall.

August

3 Bilateral discussions on nuclear fuel reprocessing are held in Tokyo in an attempt to negotiate a permanent policy, with Japan desiring to establish commercial reprocessing without U.S. supervision.

5-6 The United States and Japan hold official talks in Tokyo on the issue of access to Japan's markets.

5-11 Japan and the United States conclude a new GIFA (Governing International Fisheries Agreement) that allows continued but more restricted Japanese fishing in U.S. waters.

9 The OECD releases its annual report on the Japanese economy.

10 The Suzuki cabinet approves the Government Reform Commission's proposals on administrative reform to streamline the bureaucracy, but they face an uncertain future.

10 The House Subcommittee on Asian and Pacific Affairs passes legislation to overturn the administration's technology embargo against the Soviet Union.

11 Japan agrees to continue its voluntary restrictions on auto exports to Canada.

12 The U.S. Secretary of the Navy confers with Director General Ito of Japan's Defense Agency on sea-lane defense. The United States desires Japan to assume more responsibility.

12-14 The 18th Japan-California Council meeting is held in Santa Barbara.

13 The Federal Reserve lowers the discount rate from 11 percent to 10.5 percent, reflecting the continued fall in U.S. interest rates.

13 MITI Minister Abe expresses concern about the local content bills pending before Congress.

17 The Japan Fair Trade Commission (JFTC) proposes liberalizing and easing regulations on beef imports, banking and other sectors as the outcome of its study of government regulation and its economic impact.

24-26 ,Representatives of the U.S. Justice Department, Federal Trade Commission and the JFTC gather in Tokyo for their annual meeting.

26 The Federal Reserve lowers the discount rate once again, from 10.5 percent to 10 percent, just two weeks after the last cut as the pace of interest rate decline quickens.

26 Ambassador Okawara confers with Secretary of State Shultz on the technology embargo against the Soviet Union. Japan continues to press for an end to the embargo.

30-September 1 14th U.S.-Japan Security Subcommittee meeting is held in Honolulu. Agreement is reached on a joint study of Japan's sealane defense.

September

4 Japan and the United States reach a textile trade agreement for the January 1982-December 1985 period. Quotas are set on 11 items exported to the U.S.

6-10 The annual IMF/World Bank meeting is held in Toronto. The industrialized countries urge a tightening of borrowing controls while third-world nations want fewer restrictions. Mexico's announcement of severe financial difficulties casts a shadow over the discussions.

7 U.S.-Japan interim aviation agreement is signed in Washington covering flights for the next three years.

9-10 Officials from the Japanese Embassy and consulates in the United States convene in Washington to consider U.S.-Japan relations.

20-24 Liberal Democratic Party officials visit Washington to discuss bilateral agricultural trade issues in advance of the official negotiations scheduled for October.

14 Senate Foreign Relations Committee holds hearings on the overall U.S.-Japan economic relationship.

14 Senators Bentsen and Danforth introduce a resolution calling for liberalization of Japan's beef and citrus markets.

14 Japanese farmers' delegation meets with Agriculture Secretary Block about bilateral agricultural trade, seeking understanding of their stand in opposition of liberalization of imports.

14 The Commerce Department imposes restrictions on foreign tuna fishing off the Atlantic Coast.

15 The House Energy and Commerce Committee reports out a local content bill (H.R. 5133) with some changes easing the restrictions.

15 Defense Agency White Paper in Japan terms Soviet military buildup a serious challenge to Japan.

16 Iowa Governor Ray meets with Agriculture Ministry officials in Tokyo concerning agricultural trade, adding to the pressure for import liberalization.

16 IBM files a civil suit against Hitachi and others in the industrial espionage case to prevent the use of allegedly stolen technology. This is in addition to the criminal case already underway.

17-22 British Prime Minister Margaret Thatcher urges Japan to ease import restrictions and increase its defense role during a visit to Japan.

21 Japanese and American subcabinet officials meet in Tokyo to discuss trade regulations and agricultural trade issues.

26-October 1 Prime Minister Suzuki visits Peking. China remains eager for Japanese assistance on major investment projects.

27 The House Ways and Means Trade Subcommittee holds hearings on the domestic content bill. Reagan administration officials testify against it.

30 Defense Agency Director-General Ito meets with Defense Secretary Weinberger in Washington. The Defense Department announces an agreement allowing up to 50 U.S. F-16s to be placed in northern Japan starting in 1985.

30-October 1 Official U.S.-Japan talks on 6 agricultural products other than citrus and beef are held in Washington.

October

1-6 MITI Minister Abe visits Washington to confer with U.S. trade officials.

1 Treasury Under Secretary Sprinkel testifies on the domestic content bill before the House Subcommittee on International Trade, expressing the administration's opposition.

2 Foreign Minister Yoshio Sakurauchi addresses the United Nations.

4 Foreign Minister Sakurauchi meets with Soviet Foreign Minister Gromyko in New York.

4 MITI releases a report predicting Japan's economy will grow at an annual average of 5 percent in real terms over the next ten years.

5 Foreign Minister Sakurauchi meets with Secretary of State Shultz.

5 Treasury Secretary Regan asserts that the depressed value of the yen reflects the depressed condition of Japanese economy. The yen promptly sinks further.

6 Governor Mayekawa of the Bank of Japan and Finance Ministry officials criticize Mr. Regan's remarks on the value of the yen as inappropriate for a government official.

8 The Export Trading Company Act is signed into law, hoped by its supporters to bring an expansion of U.S. exports.

8 The Federal Reserve lowers the discount rate from 10 to 9.5 percent, continuing the downward trend begun in August. The yen-dollar exchange rate, though, does not improve.

8 The U.S. unemployment level reaches 10.1 percent, the highest level since 1940, and is a significant factor in the trade problems with Japan.

8 The Japanese cabinet approves an economic stimulus package emphasizing public works projects, but the expected impact is small.

8 The Economic Planning Agency lowers its predicted growth rate for the economy in FY 1982 from 5.2 to 3.4 percent.

11 The International Energy Agency warns of a global oil shortage after 1985 unless dependence on imported oil is reduced.

12 Prime Minister Suzuki announces he will not run in the Liberal Democratic Party presidential election in November, throwing the field open to his competitors.

14-15 Japanese ambassadors to European nations meet in Paris to discuss the Siberian pipeline issue.

18 The U.S. Supreme Court deals a blow to Zenith and other color television makers by refusing to overturn a lower court decision on the legality of the Commerce Department settlement of dumping duties on televisions from Japan.

20 The OECD Executive Director meets with MITI Minister Abe to discuss protectionism in Japan.

20-21 U.S.-Japan agricultural talks are held in Honolulu on beef and citrus, collapsing when the U.S. side walks out because the Japanese offer no concessions on either item.

21 The European Community agrees to voluntarily restrict steel exports to the United States for three years. With the EC agreement, U.S. steel industry attention turns to Japan.

21-24 Secretary Smith of the Department of Justice visits Tokyo to discuss bilateral cooperation on drugs and organized crime.

22-24 A meeting of the North-South Round Table is held in Tokyo.

23 The LDP announces it will conduct a primary on November 23 to narrow the field of contenders for party president.

25-26 U.S.-Japan tobacco talks are held in Tokyo. No progress is made on the issue of Japan's various pricing and marketing policies that severely restrict sales of foreign cigarettes.

25 Commerce Secretary Baldrige criticizes Japan's implementation of the market access measures announced in January and May.

26 The Reagan administration announces a record budget deficit of $110.7 billion for FY 1982. The impact of deficits on interest rates is one factor in the continued weakness of the yen.

27-30 The U.S.-Japan task force on high technology issues holds a meeting in Tokyo, hammering out a set of recommendations for both governments to reduce potential friction and promote cooperation.

November

1 The first Honda Accord rolls out of the Marysville, Ohio automobile plant. Honda is the first Japanese auto company to open production facilities in the United States.

1 Reagan administration officials meet with representatives from Western Europe and Japan to discuss the technology embargo against the Soviet Union.

1-2 The third U.S.-Japan working-level meeting on implementation of Japan's May trade liberalization package is held in Tokyo. U.S. impatience is growing.

2 U.S. midterm elections result in the Democratic Party's gaining 26 seats in the House of Representatives while the Senate's composition remains unchanged.

2 Japan files a protest with the International Whaling Commission over its resolution banning commercial whaling.

3 The United States tells Japan not to defy the ban on commercial whaling.

3 Ambassador Okawa, Japan's delegate to the Geneva arms control talks, stresses the Soviet threat to Japan in a speech at the United Nations in New York.

8 Undersecretary of State Schneider holds talks with Japan's foreign ministry officials on the whaling issue in Tokyo.

8 Former Vice President Mondale urges Japan to take steps to correct the yen-dollar exchange rate imbalance.

8-9 The first U.S.-Japan conference on strategic metals is held in Tokyo.

10 Soviet President Brezhnev dies and is replaced by Yuri Andropov, former head of KGB.

10 USTR releases an inventory of it sees as trade barriers in Japan.

10 USTR proposes U.S.-Japan consultations on Japan's leather import quotas, an issue that has defied resolution.

13 President Reagan announces the end of economic sanctions against the Soviet Union including those on pipeline technology. Japan had been a vocal critic of the sanctions.

15 Prime Minister Suzuki, Foreign Minister Sakurauchi and Vice President Bush attend the funeral of Soviet President Brezhnev in Moscow. Prime Minister Suzuki meets with Vice President Bush while there.

17 The American and the Japanese Bar Associations hold talks in Tokyo on allowing American law firms to open offices in Japan. Little progress is reported.

17 USTR Brock criticizes European attempts to include criticism of specific countries in the joint statement of the upcoming GATT ministerial meeting.

21 Former Presidents Carter and Ford jointly publish an article in the *New York Times* urging the U.S. to avoid a trade war.

22 The Federal Reserve lowers the discount rate from 9.5 to 9.0 percent. At last the reduction in U.S. interest rates is causing the value of the yen to rise quickly on exchange markets.

24 Secretary of Justice Smith announces intentions to improve bilateral cooperation on controlling Japanese organized crime in the United States.

24-29 The GATT Ministerial Meeting is held in Geneva. No major new initiatives result from the meeting, which borders on failure.

25 Yasuhiro Nakasone is elected head of the Liberal Democratic Party following a decisive victory in the primary election.

27 Mr. Nakasone officially becomes the new Prime Minister of Japan.

December

1 Presidential envoy Rumsfeld meets Prime Minister Nakasone in Tokyo.

3-4 Deputy USTR David Macdonald is in Tokyo for the fourth meeting of the U.S.-Japan working-level group on implementation of trade liberalization.

3 Prime Minister Nakasone addresses

the Diet for the first time on domestic and foreign policy.

3 Vice President Bush meets with Ambassador Okawara on bilateral issues.

4 The EC Executive Council warns Japan on trade matters.

6-7 U.S.-Japan subcabinet level economic talks are held in Tokyo.

9-10 Finance ministers from the United States, Japan, West Germany, France and the United Kingdom meet in Kronberg, West Germany to discuss international monetary problems.

13 The EC says it will appeal the question of Japan's trade behavior back to the GATT, as preliminary negotiations on its complaints prove unsatisfactory.

14 Senate Foreign Relations Committee unanimously passes S. Con. Res. 46 urging Japan to increase defense expenditures to 1 percent of GNP.

15 The U.S. House of Representatives passes H.R. 5133, the local-content bill on automobiles. No action is taken by the Senate before the legislative session closes, but House passage sends shock waves through Japan.

16 The Senate passes a resolution on Japanese market access.

16 The American Iron and Steel Institute files a Section 301 complaint charging the Japanese steel industry with unfair trade practices.

17 U.S.-Japan agricultural talks are held in Washington.

21 The Senate passes a "sense of the Congress" resolution supporting the petition by Houdaille Industries with the government calling for denial of investment tax credits on purchases of Japanese-made machine tools.

23 The United States says it will not press charges against Japan on agricultural imports at GATT.

25 The Japanese Cabinet adopts measures on tariff cuts, import quotas and import procedures in its third market-access package of the year.

30 The FY 1983 budget is approved by the Japanese Cabinet with a 6.5-percent defense spending increase and a tight lid on most other expenditures.

Part II Introduction

Continuing the trend begun in 1981, bilateral economic relations deteriorated seriously in 1982. By the end of the year, concerned observers in Washington felt that relations were at one of the lowest, if not the lowest, ebb of the postwar period. Moreover, the volume of bilateral trade stagnated for the first time since 1975, a year affected by the sharp recession following the 1973 oil shock. With both countries facing recession or slow economic growth, and equally weak signals from the rest of the world, conditions were not propitious for either expanded trade or the new rounds of negotiations on market access. One of the few bright spots was the change in Japanese leadership at the end of the year that brought in Yasuhiro Nakasone as prime minister—a man that Americans quickly felt was a leader with whom they could communicate.

The Economic Background

Unlike the tensions in 1977-78 when the economies of both Japan and the United States were growing at healthy rates, the recession of 1982 provided a poor background for bilateral relations. While it is simplistic to assume that the tenor of the economic relationship is solely dependent on economic developments, it remains an important ingredient.

The Global Economy

Although there was some consolation from the decline in worldwide inflation in 1982, a heavy price has accompanied that reduction. Industrial production in developed countries was falling and the Organization for Economic Cooperation and Development (OECD) was pessimistic in its expectations for 1982 real GNP growth in OECD member countries, forecasting a real drop, compared to a weak *growth* in 1981.

With industrial economies faring poorly, trade in both the industrial nations and the world headed down for the second year in a row. Although the declining price and quantity of oil imports contributed to the drop in trade figures, trade in manufactured goods dropped as well.

During the postwar era, liberalization of trade through the General Agreement on Tariffs and Trade (GATT) was made easier by world economic expansion. Further moves to liberalize trade or even maintain the present system were much more difficult to achieve in the environment prevailing in 1982. The near-impasse at the ministerial-level GATT meeting in November (the first such meeting in a decade) was an indication of these difficulties. The assembled economic ministers were unable to agree on any new initiative in international trade and were only barely able to reach consensus on a general commitment to avoid protectionism.

In addition, the international financial scene deteriorated in 1982. Hard hit by the 1979 oil price increases, high international interest rates, and the stagnation of the global economy, developing countries faced difficulties in paying their large debts. Even the oil-producing developing countries were in trouble, suffering from declining revenues as prices and world oil consumption dropped. These adverse developments raised fears over a possible international financial collapse.

The Japanese Economy

Even though Japan recorded a better performance in 1982 than other industrialized nations, its position was not encouraging. Growth was positive, but far below what was originally forecast by the government. Other indicators pointed to slackness in the economy during the year; the operating rate (a measure of capacity utilization) was down, equipment orders dropped and unemployment climbed as the ratio of job openings to job seekers worsened. Nor was Japan immune from world trade trends: exports and imports fell substantially for the year in dollar terms. Even exports to the United States dropped.

Debate raged during the year over Japan's long-run growth prospects, with some analysts urging economic relief measures to pull the country out of a slump and others arguing that current economic performance was as good as could be expected. In any case, the government was unable to use either fiscal or monetary policy to provide further stimulus. Fiscal policy was bogged down in the move to reduce government deficits and achieve administrative reform, while monetary policy was constrained by fear of weakening the yen on international exchange markets.

The U.S. Economy

In the United States, recession prevailed. Real GNP dropped during the year, while unemployment rose to postwar records. The Council of Economic Advisors (CEA) took some comfort in the fact that inflation dropped dramatically to the lowest level in ten years, but even the CEA could not sidestep acknowledgment of the deteriorating real economic performance that resulted from the policies to control inflation.

High interest rates—one of the chief factors in the continued recession—finally began to fall during the summer and through the end of the year. Domestic critics charged that the high rates were an overdose of anti-inflation medicine. Internationally, the rates caused capital to flow into dollar-denominated assets, producing a general appreciation of the dollar against all foreign currencies, including the yen. The stronger dollar hurt U.S. exports by making them more expensive, and benefited foreign goods by making them less costly in the United States. Only the recession kept imports from rising more sharply.

Bilateral Trade Outcome

The U.S.-Japan trade imbalance showed little change, despite earlier fears based on the potential for a serious widening raised by the dollar's strength. U.S. data show a $1-billion

fall in exports to Japan. That drop, combined with flat imports increased the bilateral imbalance to $16.8 billion, from $15.8 billion in 1981. Japanese data, measured on a different basis, and at a slightly different time because of the time consumed by shipping, actually showed a small decrease in the imbalance, the outcome of a decline in dollar-denominated trade in both directions.

Unfavorable economic conditions in both countries influenced this result. Had U.S. economic growth been higher, the bilateral trade imbalance would have widened much more as the strong dollar increased the price competitiveness of Japanese products. American exports to Japan, on the other hand, were hostage both to the strong dollar and the slow growth in markets of interest to U.S. exporters.

Continued Tension

Few new issues arose in bilateral relations during the year. The Reagan administration continued to work toward the goals set during its first year in office, emphasizing the question of market access in Japan for American products and a boost in Japanese outlays for defense. Both were played out during 1982 against the world economic background described above and the bleak economic scene fed into the substantial deterioration of bilateral relations on many levels. As a result, Congress twisted the administration's emphasis on market access in Japan to its own traditional focus on Japanese access in the United States, threatening a variety of protectionist measures.

Whereas 1981 saw the administration begin to articulate its policies and initiate discussions with the Japanese, 1982 brought disappointment and frustration as the perception strengthened that little progress was being made. On the Japanese side, frustration and irritation stemmed from the feeling that U.S. pressure was unfair, overbearing and misinformed. It was a repeat of the same scenario played out during previous policy spats: the U.S. government raises an issue or issues, the Japanese respond after considerable delay, Washington judges the response to be inadequate and steps up the pressure and the Japanese eventually come up with further concessions. Each round of this ongoing process elevates the degree of anger.

What seemed to be lacking on both sides in 1982 was some sense of perspective. Small issues, such as aluminum baseball bats, acquired symbolic value, and the pressure and animosity were allowed to reach levels far out of proportion to the importance of the subject. The Japanese, on the other hand, did not seem to understand the qualitative difference between the current round of problems and previous conflicts, especially the much stronger danger now of tipping the balance toward a self-generating slide into stronger protectionism.

By the end of 1982, few of the major issues raised by the Reagan administration had been satisfactorily resolved and 1983 seemed to promise yet more tension and antipathy. Since the election of Mr. Nakasone as prime minister, however, Washington became somewhat hopeful because he appeared to be a more forthcoming leader and more active in pressing his will on the Japanese government.

Even in December, though, there seemed to be a considerable disparity in attitudes between the two countries in the seriousness of the problems. Whereas observers in Washington were calling this the worst or one of the worst periods of tension in the postwar period, the perception in Tokyo was different. Japanese attitudes, outside the government ministries directly involved in negotiations, were less gloomy and in some ways rather belligerent.

One reason for the Japanese attitudes may have been a credibility gap. Because the Japanese press tends to be sensational and routinely overplays the importance or seriousness of many issues, the true gravity of the situation in 1982 may not have stood out.

Another problem is the tendency to see U.S. demands as "misunderstanding." Arising from the fact that some issues raised by the United States have been truly misinformed, this attitude of indignation is not surprising. However, this indignation is then often applied to the whole range of U.S. complaints. The situation was very unfortunate because *some* of the issues raised by the Reagan administration were both serious and entirely legitimate.

Another problem in 1982 was the attitude in Japan that problems with the United States were simply the result of poor U.S. economic performance and a temporarily weak yen. With the yen rising late in the year and expectations widespread that the growth rate of the U.S. economy would improve in 1983, some Japanese believed that the problems would disappear as U.S. industries became less pressed by price-competitive imports from Japan. There was some merit to this belief, but this attitude, like the "misunderstanding" thesis, ignored the substantive problems over Japanese import barriers that the Reagan administration chose to make the hallmark of its economic policy toward Japan. It also did not take into account the connection between some of the protectionist sentiment in the United States and the continued problems over trade barriers in Japan.

Moreover, there was some tendency to interpret the problems as deliberate "scapegoating" by American firms whose true problem was their poor competitive strength. This was closely related to the overall sense of confidence the Japanese had in their own country. Not only was self-confidence a factor, but there is some tendency on the part of the Japanese to believe that their country is unique and that foreigners cannot really understand it. This preconception made it somewhat difficult to convince the Japanese that some problems had nothing to do with misunderstanding.

A further factor may have been the lack of a clear constituency that favored the removal of import barriers. More often than not, arguments to eliminate trade restrictions have been couched in terms of avoiding foreign criticism—as distinct from any potential benefit to Japan. The absence of a favorable constituency affected attitudes toward further liberalization; the voices from abroad were not reinforced by criticism within Japan.

These factors help to explain why the resolution of problems during 1982 fell into the familiar pattern described above. Not believing in the seriousness or legitimacy of U.S. complaints, the Japanese sought to concede as little as possible to placate the United States. On the other hand, the United States, for domestic reasons, sought to apply strong pressure on too many issues, including some of little merit.

With the rising sense of frustration and urgency in Washington, coupled with this intransigence of the Japanese, the sum total of the year was not

encouraging. While few new issues emerged, old ones continued to fester and progress in solving them in a mutually satisfying way was not substantial. On the question of U.S. exports to Japan, the unilateral Japanese concessions of January and May represented some progress, but American dissatisfaction with their implementation and probable impact remained strong. As for Japanese access to U.S. markets, the administration presided over a continuation of auto restraints, accompanied by ever-mounting protectionist noises from Congress.

These problems are an indication of how dependent the postwar liberal trade system has been on economic prosperity. Faced now with several years of rocky economic performances in the major industrial economies, the commitment to the ideals and benefits of liberal trade was visibly eroding in 1982. In the bilateral context, that erosion had not resulted yet in any significant retreat from gains achieved in the past—Japanese barriers continued to decline and even in protected U.S. industries the Japanese had a substantial presence. But 1982 definitely suggested a feeling of increased danger for the system.

Part III: The World Economy

Economic Developments

Japan and the United States interact against the background of world economic developments. Data on these developments are slow to appear, but the basic outlines of 1982 are clear, and are clearly disappointing.

Overview of Growth

Economic growth rates remained low or negative around the world. Even though the 1979 oil shock was three years in the past, economic growth rates failed to return to the levels of the late 1970s. Europe and the United States turned in especially weak performances, but not even Japan was immune to the continuing slowdown in growth.

Industrial Countries In December, the Organization for Economic Cooperation and Development (OECD) issued its semiannual forecast for growth among its member countries, predicting that for the OECD as a whole, real GNP growth would be negative, with a decline of one-half percent. This was a worse performance than in 1981, when the OECD countries grew by a weak 1.2 percent, and it was worse than originally forecast. The OECD forecast was reinforced by the preliminary assessment of the General Agreement on Tariffs and Trade (GATT), which estimated that gross domestic product (GDP) in the industrial countries declined by 0.5 percent. Reflecting the overall economic recession, industrial production in these countries is estimated by GATT to have dropped by 4 percent.

Of the major OECD members, the United States, Germany and Canada registered negative growth rates. Since the United States is such a large proportion in the average performance, looking at the OECD total minus the United States yields a weak positive growth rate of one-half percent, little changed from the 0.8 percent growth in 1981.

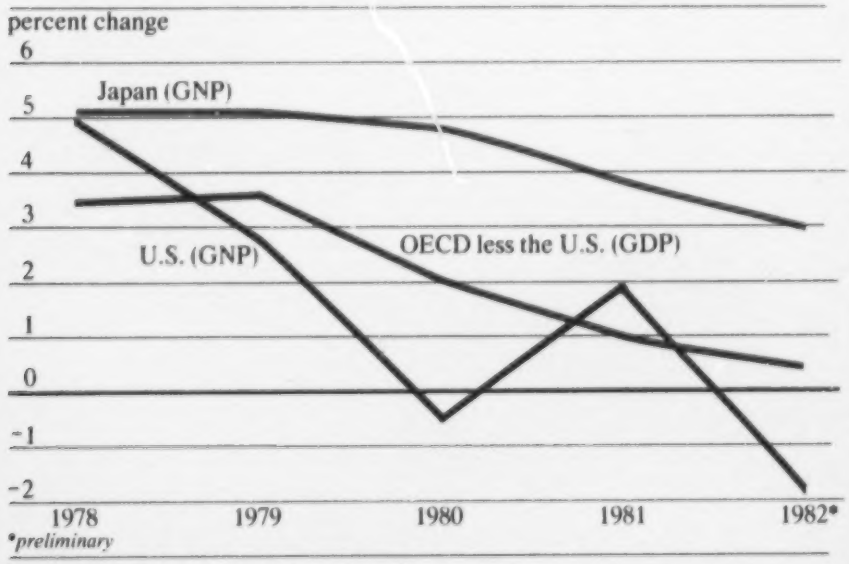
As has been the case often in the past, Japan's performance was the highest of the major OECD economies, and was outdistanced only by Turkey. Japan, in fact, exceeded the December OECD forecast by one-half percentage point with its 3.0 percent growth rate. Japan's relatively good performance exposed it less to the adverse economic effects of 1982's downturn than other countries, although Japan no longer exceeded the performance of other countries by as much as in the past.

Within Europe, economic performances were marginally better on average than in 1981, but the picture remained bleak. Only Portugal and Turkey managed to produce growth rates of 2 percent or better. Most of the major industrial nations remained at close to zero growth—an unhappy result compared to the 2.8 percent average for the four major European members of the OECD (Germany, France, Italy and the United Kingdom) during the 1970s.

With growth weak, employment suffered, forming the main political support for protectionism in the United States and Europe. For the OECD area as a whole, unemployment has been estimated at 30 million, or an average rate of 8.5 percent in 1982. In Europe the number of unemployed was up by 4 million, totalling over 16 million in 1982, with rates in the major countries ranging from 7 percent in Germany to over 12 percent in Britain. Substantial unemployment in Germany is an especially devastating change since Germany for a long time had unemployment rates as low as those in Japan. With high and rising unemployment in these countries, it is not surprising that relations with Japan worsened—the one major industrial country where unemployment did not substantially worsen from 1981 to 1982.

The OECD sees the continued stagnation among industrial nations as the outcome of the deflationary policies—both fiscal and monetary—followed since the oil shock of 1979. While acknowledging the unavoidable necessity of pursuing deflationary policies, the OECD points out that the negative

Economic Growth in Real Terms



*preliminary

Source: The Organization for Economic Cooperation and Development, Department of Commerce and Economic Planning Agency

impact has been worse than anticipated when the process began. Despite some easing during 1982, the main impact of policy on economic growth remained negative.

Developing Countries Preliminary estimates by GATT place the real GDP growth in the non-oil developing countries at no more than one percent, the lowest growth rate for this group of countries in the entire postwar period. With growing populations this also meant the second consecutive year of falling GDP per capita.

Even the newly industrializing countries (NICs) in Asia dropped considerably from their usually high growth rates. For Hong Kong, growth dropped precipitously from 10.4 percent in 1981 to 2.4 percent in 1982, triggered partly by the collapse in the real estate market and fears about the colony's long-range political future. In Singapore growth was down from 9.7 percent to 6.0 percent, for South Korea growth was expected to decline from 7.1 percent to 6.0 percent and Taiwan slipped from 5.0 percent to 3.8 percent. Excluding Hong Kong, these performances were still much better than the industrial countries, but they were uniformly lower than in 1981. Other Asian countries, including Malaysia, Thailand, Indonesia and the Philippines also experienced a cut in their growth performance.

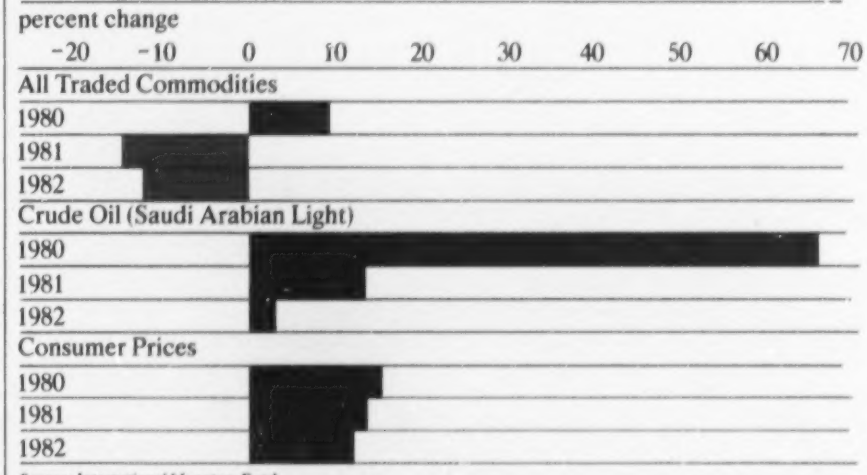
Because a number of Asian developing countries have relied on a strategy of export-led growth, stagnation of industrial country growth and the resulting slowdown in world trade is a serious problem. Their uniformly positive growth rates in 1982 indicate that despite the problems they have managed reasonably well. Nevertheless, they continued to be very concerned over trade developments—including perceived barriers in Japan and rising protectionist sentiment in the United States.

Inflation

Inflation was the cause for the deflationary economic policies that were a main cause of lower economic growth in 1982. At least partial victory can be declared in that battle even if the side effects have been debilitating. Prices of major traded commodities dropped for the second year in a row, while world consumer price inflation subsided by a substantial amount.

Commodity Prices After declining 14.7 percent in 1981, the International Monetary Fund's (IMF) price index of major commodities fell another 12.1 percent in 1982. As with most price developments, the impact of this was mixed; it meant major benefits for importers of basic commodities, but it hurt exporters. A key element of the overall decline was foodstuffs, which fell 21.0 percent in 1982, following a 13.7 percent drop in 1981. This included falling prices of some major items of importance to U.S.-Japan trade, including a 15.1 percent fall in the world price of soybeans and 5.9 percent in the price of beef. The implication of these price changes for bilateral trade is covered in Part VI.

World Inflation Rates



Source: International Monetary Fund

Petroleum prices were also part of the moderation of commodity prices in 1982. After the tremendous jumps in 1979 and 1980, the average traded price increase of Saudi Arabian light crude abated to 13.4 percent in 1981 and only 3.0 percent in 1982. This represented the result of the growing oil glut caused by slower economic growth, continued conservation and shifting to alternative energy sources, as well as increased oil supplies coming on stream. By the end of 1982 it was clear that the glut, producing downward pressure on prices, would continue for some time.

Consumer Prices With commodity prices falling overall, petroleum prices stabilizing, and deflationary economic policies in effect, consumer price inflation slowed noticeably. For the world as a whole, according to IMF statistics, consumer price inflation was 12.0 percent in 1982, down almost 2 percentage points from 13.7 percent in 1981, and well below the peak of 15.3 percent in 1980. Average inflation in the 20 industrial countries in the IMF statistics was 7.4 percent, down from 10.0 in 1981 and 11.9 in 1980. In fact, consumer price inflation in the industrial countries was the lowest since 1978.

Among the industrial nations, the major improvements in inflation occurred in the United States, Japan and Britain. For the United States, inflation subsided from 13.5 percent in 1980 to 6.2 percent in 1982. In Japan the change over the same time period was from 8.0 percent to 2.6 percent, and for Britain the drop was from 18.0 percent to 8.6 percent. This improvement stands in sharp contrast to the other industrial countries, where there was little change. For West Germany and Switzerland this did not matter, since they went through the entire post-1979 oil shock with remarkably low inflation rates (4 to 7 percent). But for France (12.0 percent), Italy (16.4 percent) and many of the others, consumer price inflation in 1982 remained well above 10 percent during 1982 and was not much lower than in earlier years.

Furthermore, the improvement in inflation rates from 1980 to 1982 did not apply on average to the developing countries. The group of non-oil producing countries had an average inflation rate of 34.5 percent in 1982, measurably *higher* than 1981 or 1980.

For many less developed countries, high inflation has long been a standard feature.

The interesting feature of inflation in the developing countries was that some of the rapidly growing Asian countries—South Korea, Singapore, Taiwan and Hong Kong—behaved more like industrial countries. South Korea cut its inflation rate from a peak of 28.7 percent in 1980 to only 7.3 percent in 1982, while Singapore went from 8.5 percent to 3.9 percent. For Taiwan, consumer prices were running only 2.4 percent ahead of year-earlier levels by the fourth quarter, compared to well above 10 percent in 1981. Even Hong Kong, where inflation remained at 8.6 percent in the fourth quarter of 1982, the rate had dropped from almost 17 percent a year earlier. These performances on inflation, as well as their respectable economic growth record in 1982, definitely set the newly industrializing countries (NICs) apart from the rest of the developing world.

The oil exporting countries also experienced declining inflation. While full year data is not yet available, inflation in the third quarter was 8.2 percent, compared to a 14.5 percent average for 1981. Unlike the Asian NICs, though, many of these countries faced less favorable economic prospects by the end of the year because of declining oil export revenues.

Interest Rates Japan, with its 2.6 percent inflation rate, and one of the best inflation records worldwide, clearly outperformed all the other industrial countries. The difficulty this posed for Japan was the low inflation and weak economic growth pointed to the desirability of following more expansionist economic policies. But with fiscal policy constrained by the desire to reduce the government deficit, the burden fell on monetary policy. This situation developed during 1981, and the resulting disparity in interest rates that developed between Japan and the United States led to capital outflow and thereby downward pressure on the yen. This disparity continued through most of 1982, but monetary authorities felt constrained to see any further widening of it and thereby resisted any further loosening of monetary policy.

Comparisons of interest rates illustrate the developments during the year. Interest rates in Japan were virtually unchanged from the end of 1981 to the end of 1982. The central bank discount rate stayed at 5.5 percent, long-term (10-year) government bond yields remained in a 7.5-8.5 percent range, and short-term rates (based on the *gensaki* market) were in a 6.3-7.3 percent range throughout 1982.

U.S. interest rates were much higher than those in Japan, but dropped rapidly in the second half of the year. The central bank rate fell from a high of 12.0 percent to 8.5 percent at the end of 1982, while long-term government bond yields fell from 14 percent to under 11 percent and Treasury bills dropped from almost 12 percent to just over 8 percent. The shift began in late July and continued until the end of the year.

Whereas Japan had had the lowest overall interest rate structure among industrial countries at the end of 1981, this was no longer the case by the end of 1982. Switzerland, the Netherlands, and West Germany all had reduced interest rates to levels roughly comparable to those in Japan by the end of the year. Countries where inflation continued to remain relatively high, though, were unable to follow suit, with the central bank discount rates in Britain, Canada, Belgium, France and Italy remaining at or above 10 percent.

Trade and Payments

Merchandise Trade Preliminary data from GATT show the volume of trade declining by 2 percent in 1982, while the value of trade expressed in dollars dropped 6 percent, $1.7 trillion, due to the falling price of primary commodities as discussed above. The contraction in trade volumes was distributed across the range of goods traded. GATT estimates that agricultural trade volume actually rose by one percent, but that was considerably below the 4 percent growth of 1982. The volume of mineral products trade was down 7 percent, after a 9 percent decline in 1981. This was the direct result of the continuing fall in oil trade. The most significant development was the one percent dip in manufactured goods trade, in contrast to a 3 percent growth in 1981, and the first decline since the severe recession of 1974. Thus, manufactured goods were no longer able to withstand the overall stagnation in trade, an ominous development.

Industrial nations reflected the overall trend, with GATT reporting a one percent decline in volume of both their exports and imports, while the dollar value of exports fell 5 percent and imports 6 percent. The IMF confirms this decline, showing in its statistics a 5.2 percent drop in industrial nation exports, and a drop in imports of 6.1 percent. This marked the second year in a row for declines in both exports and imports. As trade contracted, though, so too did the merchandise trade deficit of this group of nations, which was $63 billion, a $15 billion improvement over 1981. The improvement was not universal, however, as 9 of the 18 countries included in the IMF group of industrial nations showed a deterioration in their trade balances, led by the United States. The contraction in industrial nation trade was an important element in creating a grim climate for the international trade relations described below. Nor were the United States and Japan in their bilateral relationship immune from the overall trade developments, as detailed in Part VI.

The IMF has also released its trade data for the oil exporting countries, showing a severe 20 percent drop in their export earnings, led by Saudi Arabia with an enormous 33 percent fall. This was the second consecutive year of declining receipts and meant that the large trade surpluses arising in the wake of the 1979 oil shock were evaporating. Even with a drop in imports of 3 percent in 1982, preliminary GATT estimates put the oil exporting countries' combined current account surplus at only $20 billion, a dramatic shift from the $114 billion surplus in 1980.

Falling oil export revenues were a major cause of the sense of international financial crisis by the summer, as Mexico was forced to reschedule debt payments. While the stabilizing price and declining imports of oil represented a major piece of good news for the industrial nations, they also were the holders of debt from countries such as Mexico, making the improving oil situation a mixed blessing. The United States and Japan in particular were heavily involved in international lending as discussed below in Part IV.

Non-oil developing countries also faced declining exports and imports, but like the industrial countries, managed to narrow their trade and current account deficits. The GATT reports exports to have fallen by 5 percent in value, while imports dropped 10 percent. This narrowed their combined trade deficit to $40 billion in 1982, a $20 billion improvement over 1981.

Debt Problems The 1979 oil shock threw the non-oil developing countries into current account deficit, which had to be offset by increased capital inflow, mainly by borrowing from abroad. The OECD estimated that by the end of 1982, total developing country debt (medium- and long-term only) reached $626 billion, up 18.1 percent from 1981. Debt service payments rose too, reaching an estimated $131 billion in 1982. A major change in the late 1970s and early 1980s was the rapid rise in the proportion of total debt from commercial financial organizations, as opposed to concessional loans from industrial country governments and multilateral loan organizations. Loans on a nonconcessionary basis rose from 63 percent of total developing country debt in 1979 to 79 percent by the end of 1982.

Rapidly rising debt and the attendant risk of default in the unfavorable economic environment of 1982 were widely discussed during the year, as at the World Bank/IMF meetings considered later in Part III. In 1982 the problem was intensified by falling oil export revenues and also the drop in world manufactured good trade, hurting the ability of the debtors to cover past debts through rising export earnings. On the other hand, the sharp reduction in non-oil developing country current account deficits in 1982 reduced financing needs. While debt remained a potentially dangerous problem, no country actually defaulted, and efforts were taken to keep countries such as Mexico from being placed in such a position.

Developing country debt problems were important to both Japan and the United States since banks in both countries were large lenders to this group. Japan's policy actions on lending to developing countries are considered in Part IV.

International Interactions

Developments on international exchange markets as well as official meetings and agreements confirm the view of a beleaguered world fighting against rising protectionist pressures. The steady movement toward a more liberal trade framework has been challenged and harmed by the severe economic conditions of the past several years. Although the tariff cuts mandated by the Tokyo Round agreement continued to be implemented, the basic image of the year was narrow avoidance of trade wars, lukewarm commitment to liberal trade principles, fear over potential financial collapse in developing countries and dissatisfaction over the unusual strength of the dollar.

Exchange Rates

As with so many other developments and issues during 1982, the concern and outcries about an overvalued dollar were basically a continuation of developments from the previous year. Comparing currency values at the end of December 1982 to a year earlier, the average value of the dollar measured against a weighted basket of 14 industrial country currencies, as reported by the Commerce Department, shows the dollar rising from the fourth quarter of 1981 through the third quarter of 1982, with the third-quarter level of 7.3 percent ahead of a year earlier, and 1.7 percent above the level of April 1971 (when the dollar was universally acknowledged to be overvalued). After the third quarter the value of the dollar fell somewhat, although this did not wipe out all of the previous gains.

Changes in the yen-dollar relationship mirror those with other currencies. At the beginning of January 1982, the yen stood at ¥218=$1 (based on the median interbank rate on the Tokyo foreign-exchange market). This value was partly due to a burst of yen appreciation late in 1981 that had been based on the expectation of a strong move into current account surplus. These surpluses failed to materialize, and by January the yen was heading back down as the wide interest rate differentials between Japan and other countries led to continued capital outflows.

From January until April, the yen rather steadily sank on international exchange markets, reaching a temporary low at close to ¥250, a depreciation of 12 percent since the beginning of January. A short rally in April and May kept the yen in a ¥230-245 range. June brought a deterioration to a ¥250-259 range, followed by another uneven decline in August through early November, with the bottom reached on November 4 at ¥277, 21 percent below the value at the beginning of the year. After reaching this low point, universally labeled as unrealistically weak, a rapid recovery set in, bringing the yen back up to ¥235 at the very end of December, an 18-percent gain in less than two months.

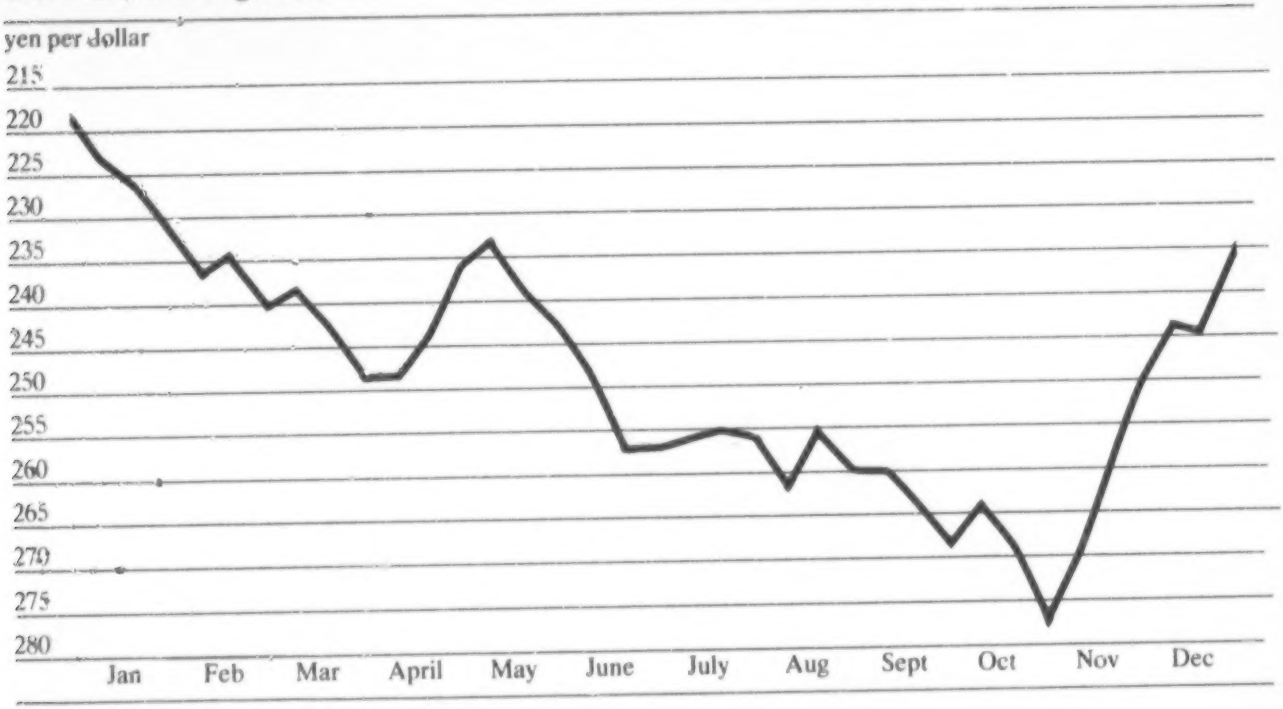
The wide interest-rate differential between Japan and the United States was a major factor in the yen's depreciation. As described above, rates in Japan remained rather steady, while the high U.S. rates finally began declining after July. When the break in U.S. interest rates came, the yen did not rise immediately, as had been widely expected. Although interest rates were labeled as the major culprit in yen weakness, traders in the market were unconvinced of the permanence of the change in the United States. By November, when the interest rate decline actually slowed, the perception in the exchange markets finally shifted, resulting in the rapid appreciation of the yen.

At the same time that interest rates acted to shift funds out of the yen and into dollars, Japan's current account surplus failed to grow as much as expected, another factor in the yen's weakness. At $6.9 billion for the year, it was not much larger than the $4.7 billion surplus of 1981, and below the original predictions of $10-$15 billion. The OECD had even predicted a surplus of $17 billion. As it became evident that such figures were far too high, investors hoping for this rising trade-related demand to offset the lower nominal interest rates on their investments in Japan had less reason to keep their money in yen.

Thus, not only did the trade-related demand for yen fail to increase substantially from 1981, but there was an important expectations effect on investors causing them to shift their portfolios away from yen investments. This trend was reinforced by a generally less optimistic view of Japanese economic performance as a whole and also a decline in investments in Japan by OPEC nations as their surpluses fell.

Faced with a weakened and falling yen, the Japanese government wanted to reverse the trend, using direct intervention, selective capital controls and abandonment of any further relaxation of monetary policy. These actions are considered in more detail in Part IV. As is evident from the course of the yen during the year, none of these efforts was able to prevent or really ameliorate the extreme weakness in the yen that prevailed until

Yen-Dollar Exchange Rate



Source: Daily median interbank rate on the Tokyo exchange market

November.

In the international institutional framework, the developments in 1982 reinforced evidence from earlier years and had two impacts. First, concern was building over the volatility of exchange rate movements; the very rapid shifts in the yen-dollar rate, such as in November and December 1982, have been larger than expected. Second, the period of dollar weakness in 1978 and then dollar strength in 1981-1982 has reinforced the evidence that exchange rates can drift away from what could result from purchasing power parity concepts for considerable periods of time, alternately hurting and then helping the competitive position of exporters and importers. None of the international meetings considered below made any definite moves toward altering the institutional framework of the international monetary system, but talks of such a move increased.

Trade Discussions and Agreements

Above it was noted that 1982 produced little in the way of progress on liberalizing trade. This was certainly not due to any lack of opportunity to discuss these problems and issues. Developments during the year included continued Tokyo Round implementation, the Trilateral Commission meeting, the OECD agreement on export financing, the Versailles summit meeting, the IMF/World Bank meetings, the GATT ministerial meeting and IEA activities.

Tokyo Round Implementation On January 1, the third annual round of tariff cuts set in the Tokyo Round agreement went into effect. The Tokyo Round agreement under GATT was signed in 1979 and the tariff cuts were to be implemented in eight annual steps ending in 1987. Both Japan and the United States continued their tariff cuts stemming from the agreement, although as discussed in Part IV, Japan has also made unilateral cuts (some in the form of accelerating the timetable for its Tokyo Round reductions). It is significant that in the midst of poor economic performance and rising protectionist rhetoric, no one has attempted to reneg on Tokyo Round commitments. Since the hard bargaining of the multilateral negotiations that went into the agreement are now in the past, the quiet implementation is often lost in the more vocalized problems of the present.

Trilateral Comission International trade conflict was a major topic at the April Trilateral Commission meeting in Tokyo, where the Japanese government was warned that its trade practices had escalated into an explosive political problem both in the United States and Europe. The Commission, an influential private-sector group of political, business and academic leaders from Europe, North America and Japan, issued a task force report pledging to work toward preserving free trade, to respond to the challenge of the Soviet Union's military buildup, and to contribute more to the developing economies.

Trade discussion centered on Japan's economic power and its closed-market image. As Harvard Professor Richard Cooper, a former senior official in the Carter administration put it, the purpose of the Tokyo meeting was to convey to the Japanese government the American and European consensus that Japan should respond to rising protectionism by revising its trade and economic policies. Robert Strauss, former U.S. Trade Representative under the Carter administration, also expressed concern over the political consequences of the trade issue. In general,

there was a sense of urgency and unease among the participants on the future of the free-trade system in the face of rising protectionism.

As for the Japanese participants, who acknowledged the political gravity of the situation, there was little inclination to accept the argument that Japan's trade behavior had precipitated the economic difficulties faced by the United States and Europe. They responded with criticism of high U.S. interest rates.

OECD Agreement on Export Credits

One of the most immediate problems of 1982 was the possibility of a trade war developing over use of subsidized government financing on exports. Major export sales to developing countries often hinge upon the financing package, leaving the temptation for governments to win sales for companies of their own country by offering lower interest rates through their government-owned trade financing institutions.

This problem began in 1981, and in October of that year, the OECD countries that were signatories to the Arrangement on Guidelines for Officially Supported Export Credit managed to sign a six-month compromise agreement which expired on May 15. At a meeting in Paris in early May, another compromise measure was introduced, and the participating countries given until June 15 to register disagreement—a deadline later postponed.

As the possibility of a credit war was looming, Congress turned its attention to beefing up the ability of the U.S. Export Import Bank to match concessionary loans by other countries. Considered in greater detail in Part V, this interest by Congress was useful to the administration in pressing the other parties to the agreement to settle on new guidelines.

After teetering on the brink of a full-scale export financing war all spring, the signatories finally agreed on June 30 to new minimum interest rates for export-related loans. The original May 15 expiration date had been pushed forward at least twice, which led many to speculate that a compromise might be impossible and that a credit war was inevitable.

Straddling American and European Community (EC) demands, the new minimum rates that could be offered to "rich" countries (those with a per-capita GNP of $4,000) moved up from 11 percent to 12.4 percent for credits with maturities of five to eight-and-a-half years. Rates for middle-income countries, where the competition for attractive export credit packages had been most intense, increased from 11 percent to 11.35 percent. The minimum rates charged on loans to poor countries (those with per-capita incomes of less than $750) remained at 10 percent. Most significant was the graduation of several countries into higher matrixes. Some of the newly industrializing counties (NICs), including Brazil, Taiwan, South Korea and Mexico, were upgraded from poor to middle income, and East European countries moved from middle- to higher-income categories. The United States was pushing for a relatively prompt graduation into the new categories, ending in six months. However, American negotiators evidently had to yield on this issue, so the transition period was expected to be as long as two years.

The Japanese were forced to accept 30 basis points above their prevailing long-term commercial prime rate (8.4 percent) and lend at an 8.7-percent minimum. While this left Japan with rates below those of other countries, it recognized that Japanese domestic rates were much lower than those elsewhere, so that export financing was not concessionary.

Versailles Summit On June 4 to 6 the annual summit meeting of the leaders of seven industrial countries took place in Versailles, France. The meeting covered economic policy, international currency fluctuations, trade, energy and a North-South round of talks.

Feeling that it was the subject of considerable international criticism, Japan attempted to reassure U.S. and European leaders that its trade policies reflected its commitment to an open trading system. Prime Minister Zenko Suzuki told the meeting that serious trade frictions were the result of the slowdown in the world economy, and that the trade imbalance would improve once a recovery was underway. He listed a variety of measures as evidence of Japan's continuing liberalization policy, including the two market-access packages already announced in 1982 (see Part IV). He acknowledged that Japan's ratio of manufactured goods to total imports remained low, but reminded critics that shipments of raw materials, particularly oil, accounted for the bulk of the country's imports. Listed by the Prime Minister as central to the implementation of future tariff reductions were efforts to expand multilateral negotiations under the GATT, bilateral discussion on trade in agricultural products with the United States and the European Community, and a study of trade in services, investments and securities for inclusion in the GATT regime. This last was a reference to the GATT ministerial meeting scheduled for November (discussed below).

The prospects for cooperation in scientific and technological development proposed by French President Mitterrand were enhanced by the agreement at the meeting to set up a working group on the development of science and technology. Also of interest to Japan was the question of the stability of international capital markets, and Mr. Suzuki stressed his support for cooperative market intervention. This question was to be further discussed by the member countries' finance ministers, and a working group was set up to prepare a report. A final emphasis was Japan's reminder that its position in Asia dictated continued support for economic and technological cooperation with the developing countries.

As this summary indicates, though, a primary theme was defensiveness, with participants explaining or rationalizing policies that had been internationally critized. The group on exchange markets was a concrete step in acting on the rising dissatisfaction with volatile exchange rate fluctuations mentioned above, but the meeting fell far short of convincing the United States to alter its strict non-intervention stance.

IEA The price of oil, as described earlier in Part III, was a spot of good news in 1982, but the official reaction to it was cautious. Representatives of the International Energy Agency (IEA), an organization established after the first oil crisis to counter the power of the Organization of Petroleum Exporting Countries (OPEC), met in Paris on May 26. Despite the appearance of stability induced by abundant supplies and declining consumption, the mood among IEA representatives was that the situation was deceptive and should not foreclose vigorous efforts at energy conservation and development of alternative energy resources. Lower prices by themselves, they warned, seemed to be slowing the pace of oil stockpiling and alternative energy advances. Coal production infrastructure,

which delayed diversification from oil, was mentioned in this context.

The United States delegation also proposed that Western Europe develop an emergency scheme in the event of a disruption of Soviet Union natural gas supplies. The United States continued to signal its displeasure with Europe's dependence on the Soviet Union for energy supplies in view of the strategic repercussions of that policy.

MITI Minister Abe, back from a trip to Saudi Arabia and the United Arab Emirates, urged the IEA to improve communications with the OPEC nations. That suggestion, however, seemed unlikely to materialize.

Late in the year, the IEA published a new long-term energy forecast, predicting that a renewed tight oil market might not be far off, predicting an end to oversupply by the late 1980s. Rising energy demands were expected to reduce available supplies as increased energy consumption by OPEC members and other developing nations and declining oil production in North America, the North Sea and the Soviet Union put a crimp in shipments. The OPEC nations' production was also expected to decline slightly.

The IEA report followed the tenor of the earlier meeting and warned that declines in oil prices due to the glut might send misleading signals to both consumers and investors. Should this delay the pace of developing alternative energy, the costs would be very high, it noted. On the other hand, the OECD countries as a group succeeded in reducing their rates of energy and oil consumption—by 8 percent in 1980 and another 7 percent in 1981. As a result, OECD oil consumption declined by 6 million barrels per day between 1979 and 1981. The IEA analysis did not, however, suggest that energy policies were responsible for the decline, but rather that the cutbacks were achieved by a drawdown of stockpiles, auspicious weather conditions, and weak economic growth.

As for the future, the outlook emphasized the importance of the market mechanism and the need to proceed with alternative energy development. IEA's gloomy view of the oil market and concern that the slow pace of alternative energy development might not meet future needs paralleled the concern of the Japanese policy makers, as detailed in Part IV.

IMF/World Bank Meeting Another major, annual international meeting is the joint gathering of the IMF and World Bank. In 1982, it was held in Toronto during September amid mounting evidence that the crisis in developing-country finances might shatter the international financial framework.

While the United States favored the establishment of an emergency fund to handle large-scale credit crises, Japan took the position that a general strengthening of the IMF by enlarging its capital resources was preferable—a policy that the United States did not favor. Japan's approach was to increase its own assessment rate (contributing a relatively larger share of total IMF capital than in the past), which would increase its voting power and enhance its prestige. Japan's assessment was last raised relative to other members in 1979, and while a number of countries agreed with the capital expansion alternative, they did not necessarily agree with Japan's position on raising its relative assessment and voting strength.

Within the International Development Agency (IDA), the industrial nation aid group, Japan's share was raised, as announced by the World Bank at the meetings. In the sixth capital replenishment, Japan's share of total IDA funds was to rise to 15 percent (from 4 percent) while the United States would reduce its share from 42 percent to 27 percent. Japan's share thus would be roughly equal to the proportion of its GNP to total IDA-member country GNP (16 percent), while the U.S. share would be considerably below its proportion in GNP (36 percent).

GATT Ministerial Meeting For the first time since 1973, the trade ministers from the 88 nations belonging to the General Agreement on Tariffs and Trade (GATT) met during November 24-29 in Geneva to discuss the functioning of the multilateral trading system. Past meetings, such as the one in 1973 had been the occasion to launch new rounds of multilateral negotiations to reduce trade barriers. The United States approached the meetings with a number of goals, including an agreement on the safeguards code; and assessment of the adequacy of the dispute settlement mechanism; a working North-South dialogue on trade barriers; consideration of agricultural subsidies; and a program to consider the applicability of GATT rules to trade in services, high-technology and trade-related investment.

U.S hopes for strengthening the international trading regime were unfulfilled when the trade conference in Geneva came to a close. After eleventh-hour negotiations, a weak resolution was finally adopted pledging that member countries of the GATT would "refrain from taking or maintaining" protectionist measures and would "resist" domestic demands for additional restrictions. The announcement fell far short of the plan advanced by Australian Prime Minister Malcolm Fraser—and supported by the United States—to declare a protectionist "ceasefire" and rollback of existing trade barriers. U.S. Trade Representative William Brock's objectives proved unattainable. The United States was backed only on its services trade proposal and its request for a consensus on settling trade disputes and dismantling nontariff barriers. The resolution also called for liberalized trade in fishery products, textiles and clothing, and high-technology goods.

In a statement at the conference's adjournment, Mr. Brock maintained that the results would get a "grade of C [which] could stretch to a C plus, but only time and future actions will tell." He underscored his fears that the actions of the ministerial meeting might not quell the rising protectionist tide on Capitol Hill and repeated that the administration would try to discourage such legislation and would oppose the automotive domestic content bill (see Part VI).

Although there was broad disagreement on a number of issues going into the conference, the near failure of the meeting can probably be attributed to the differences among the EC and the United States, Australia and New Zealand concerning agricultural subsidies. The text of the original resolution called for GATT signatories to bring farm export competition "under greater discipline." Since this, in effect, implied a phase-out of agricultural subsidies—which were a key feature of the EC's Common Agricultural Policy it was vehemently rejected. U.S. delegates had threatened to subsidize sales of American dairy and grain surpluses on the world market if the community adhered to this policy. The most the EC would agree to was a "major work program on agriculture," adding in a separate statement that this was not "a commitment to any new negotiations or obligations in relation to agricultural products."

The final consensus was quite fragile. In addition to the European Community's resistance, the Australian government also said that it "[was] not able to associate itself" with the final document. Similarly, several members of the developing countries—who preferred to deal with trade issues under the auspices of the United Nations Committee for Trade and Development where they enjoyed a clear majority—stated their intention to take formal exception to certain provisions. The bloc as a whole had never been supportive of the U.S. initiative in services trade, contending that it would allow the United States to become even more dominant in this sector at a time when they were trying to spur indigenous infant companies. Thus, there was no major movement beyond the results of the Tokyo Round agreement. The language of the final document was vague enough so that it was unlikely to have an impact on existing protectionist activity.

Part IV
The Japanese Economy

Economic Overview

Japan continued to be in an awkward contradiction in 1982—its economic growth performance was the best among all of the major industrial nations, and yet to many Japanese it was a disapppointing performance, fraught with weak sectors and a frustrating inability to use monetary policy or fiscal policy to provide further stimulus. No quarters of the year resulted in an actual drop in real gross national product (in contrast to the fourth quarter of 1981), but overall growth for 1982 was lower than the year before. Japan could not be accused of relying on exports to stimulate the economy since net exports in the GNP data were up only slighty, while customs-clearance trade data showed steady declines in both exports and imports. Policymakers were divided over the issue of greater macroeconomic stimulus, and those in favor of it lost out to the desire to prop up the value of the yen on international exchange markets and the strong political desire to reduce government deficits. In the midst of these many dilemmas, Japan had to shape economic policy to deal with rising trade tension.

As with other nations, the disappointing economic performance did not provide a favorable atmosphere for further trade liberalization. But, unlike the United States or Europe, the movement *was* in the direction of liberalization, however halting or limited the progress may have seemed from the United States. Japan's overall policy response is considered later in Part IV and the details on measures relevant to the United States in Part VI.

GNP Growth

Preliminary statistics show real GNP growth for 1982 to be 3.0 percent, down from 3.8 percent in 1981. This was a weaker economic performance than originally forecast by the government (although the government makes its forecast for the fiscal year rather than the calendar year) and by the Organization for Economic Cooperation and Development (OECD). By sector, residential construction, fixed business investment and fixed government investment were all weak. A modest recovery in consumer spending kept economic growth up, in lieu of any sizable gain in the net external surplus—a switch from the situation in 1981.

The original government forecast formulated by the Economic Planning Agency (EPA) in January predicted that the Japanese economy would achieve a real growth rate of 5.2 percent in the 1982 fiscal year (April 1, 1982-March 31, 1983), with consumer prices increasing by 4.7 percent, and a current account surplus of $12 billion. Economic Planning Agency Minister Toshio Komoto told the Cabinet meeting on economic management that the 5.2 percent economic growth rate was essential if Japan was to both increase tax revenues (thus curtailing government borrowing) and ease trade frictions. This forecast included a 3.9 percent gain in consumer spending, a 10.4 percent growth in residential investment and a 7.7 percent increase in fixed business investment. As shown below, only consumer spending approached its predicted level during the calendar year, leaving attainment of the original forecast for the fiscal year beyond reach. As a result, the forecast was revised downward in October to 3.4 percent.

Over the course of the year growth proved to be quite uneven, with a burst of activity in the second quarter offset by disappointing results in the first and fourth quarters. In the January-March quarter, real GNP growth was 1.5 percent at an annualized rate, but this jumped to 8.0 percent in the second quarter on the strength of an unusually large rise in consumer spending (9.4 percent) and a jump in both government current and investment expenditures caused by the decision to disburse a disproportionate share of public works monies in the first half of the fiscal year (April to September). Consumer spending increased then receded back to more normal levels so that GNP growth in the third quarter was at a 3.8 percent rate and in the fourth quarter dropped to 1.8 percent. Thus, the rate of expansion was declining from the second quarter on, raising worries over the direction of the economy.

Personal Consumption Spending For the last several years, consumer spending has been adversely affected by the low wage increases in the spring wage offensive and the lack of any income tax cut (resulting in bracket creep). This had been the case in 1981, when real growth in consumer spending had been only 0.5 percent. But in 1982 the situation changed, and with a real growth of 4.2 percent, consumer spending was the most rapidly expanding sector of the economy during the year.

The rise in consumer spending came despite continued slow growth of income. Total employment expanded by 1.0 percent over 1981, and nominal wages of regular workers were up only 4.4 percent, (leaving a meager 1.7 percent gain after adjustment for inflation). However, the survey of worker household income shows a larger 7.0 percent rise in family income for the year, due partly to a sizable gain in income from sources other than employment, leaving a 5.7 percent nominal gain in disposable (after-tax) income, or a 3.0 percent gain in real disposable income. Thus, the rise in household disposable income that took place despite the miniscule rise in real wages supported the climb in consumer spending for the year. This was a switch from 1981, when the modest nominal gain in disposable income was outdistanced by inflation.

Private Residential Construction Residential construction dropped in real terms by 1.0 percent in 1982, making the fourth consecutive annual decline, although the amount of the drop was smaller than in 1981. The only hopeful sign was a large jump at an annualized 33.2 percent rate in the

fourth quarter. The continued slump in housing was also evident in other data. Total housing starts in 1982 fell by half a percent over the previous year to 1.14 million units, the lowest level since 1967 (when they totaled 990,000) and the fourth consecutive annual decline. But the decline was most evident in apartment construction, the weakest element of which, condominiums, dropped by 24.2 percent—the first decline in seven years.

The government had based its GNP forecast for FY 1982 on the assumption of a 14-percent increase to 1.3 million housing starts. The continued drop in housing starts for the calendar year made this assumption very unrealistic. However, government forecasters remained optimistic that a revival in housing construction would take place. Although demand for housing was assumed to be satisfied because about 60 percent of all Japanese households owned their houses, a government survey showed that 40 percent of all households were dissatisfied with their current housing and intended to either replace or alter their dwellings. Thus, the blame for the poor showing of housing starts was being placed in 1982 on high and rising land prices. By the end of the year land prices showed signs of stabilizing.

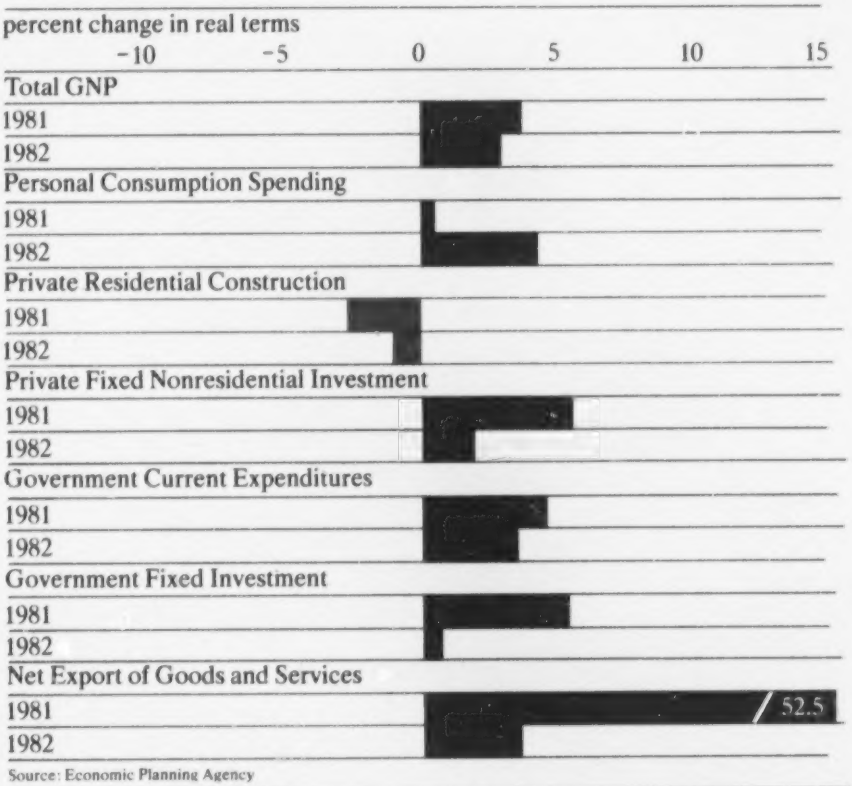
Private Nonresidential Investment Growth of private fixed nonresidential investment (plant and equipment) was positive for the year, but at a real rate of 1.9 percent it was rather weak. This compared with a much higher figure of 5.6 percent in 1981. In fact, the year ended on an unfavorable note, with a drop of 0.7 percent at an annualized rate in the fourth quarter.

Reflecting the weakened market for new investment, the index of industrial production slipped by 0.4 percent, following a 2.0 percent gain in 1981. The manufacturing operating rate (a measure of capacity utilization) also fell, by 2.9 percent, but this was at least a smaller drop than the 4.6 percent decline in 1981. Both of these indicators pointed to stagnation in plant and equipment investment.

Change in Inventories Forecasts for FY 1982 had assumed that business inventory liquidation would be completed by the middle of the year, but this did not materialize. The GNP data, which measure the change in the level of inventories, are normally positive, as inventories expand with the total amount of economic activity in the nation. Business inventories as measured by the GNP accounts did gain in 1982, but at an inflation-adjusted rate that was 11.9 percent below 1981's accumulation. Furthermore, the rate of growth slowed quarter by quarter throughout 1982. As the year progressed, an increasing percentage of firms viewed their inventories as excessive in the periodic government surveys.

Unlike the United States, the government sector in Japan is broken into two segments for GNP purposes—current expenditures and fixed investment. In real terms, current expenditures were up 3.5 percent in 1982 (compared to 4.6 percent in 1981). Fixed investment, on the other hand, was up only 0.7 percent (compared to 5.3 percent in 1981). Adding the two segments of

Japan's GNP by Sector



Source: Economic Planning Agency

Japan also reports inventory data for the government sector. Here there was an absolute decline in the level of inventories—not just a decline in the rate of accumulation as was the case in the business sector. This made the second year in a row of absolute decline, and the changes reflected the environment of budget cutting prevailing in Japan.

Government As discussed below under fiscal policy, 1982 marked a continuation of the effort to reduce government deficit spending through a combination of holding down increases in the government budget and increasing taxes. This meant that government spending was not a major source of growth for the economy. Unlike the United States, the government sector in Japan is broken into two segments for GNP purposes—current expenditures and fixed investment. In real terms, current expenditures were up 3.5 percent in 1982 (compared to 4.6 percent in 1981). Fixed investment, on the other hand, was up only 0.7 percent (compared to 5.3 percent in 1981). Adding the two segments of government spending together, total inflation-adjusted government expenditures were up only 2.1 percent in 1982.

On a quarterly basis, the government fixed investment figures show the unevenness caused by fiscal policy developments. When the FY 1982 budget was enacted in the spring, a disproportionate share of public works expenditures were loaded into the first half of the fiscal year (April-September), in anticipation that a supplementary budget would be enacted in the fall. The supplementary budget, however, did not provide for additional spending; quite to the contrary, it provided for some budget cuts in order to make up for a shortfall in tax collec-

tions. Thus, government fixed investment spending had large real increases in the April-June quarter (20.2 percent at an annualized rate) and July-September quarter (24.0 percent) followed by a sizable drop in the final quarter (16.2 percent). Since the same unmet expectations about a supplementary budget had characterized the FY 1981 budget process as well, 1982 began with a 16.0 percent fall in government investment spending. This unevenness also contributed somewhat to the overall unevenness of GNP growth over the course of the year—especially the unusually rapid spurt in the April-June quarter.

External Sector On a GNP basis, net exports of goods and services grew at a real rate of 3.7 percent in 1982, down from the high 52.5 percent growth of 1981. Because this figure measures *net* exports, even relatively small changes in either exports or imports can cause very large gyrations. In some years high growth of net exports has been a major contributor to pulling up the overall GNP growth rate, but this was not the case in 1982.

The net figure was the product of a 3.5 percent growth in exports of goods and services and a 3.1 percent growth in imports. The pattern of both exports and imports was an increase in the first and third quarters, with sizable drops in the second and fourth quarters.

Merchandise trade, services and income received or paid as measured on a national income basis should not be confused with the balance of payments data or customs clearance merchandise trade data, all of which are measured on a different basis. These other measures are the ones usually mentioned when dealing with questions of international trade relations and are covered separately below.

Inflation

As described in Part III, Japan had an enviable record on inflation. Wholesale prices rose 1.8 percent, only slightly more than the 1.4 percent increase during 1981. Since Japan is a heavy importer of raw materials, and since world prices of traded commodities fell, wholesale prices in Japan benefitted somewhat since imports are an important component of the total wholesale price index (with a weight of 12 percent). However, the drop in dollar-denominated world prices was more than offset by the depreciation of the yen, so that the index of import prices actually rose 7.9 percent. This was still low compared to the large 47.7 percent increase of 1980.

The domestic component of wholesale prices increased by only 0.5 percent, providing ample indication that inflation was thoroughly under control in Japan. The export component, on the other hand, was up 3.9 percent. These generally low rates of inflation were not confined only to commodity markets, where prices fluctuate widely with demand and supply changes, but extended to other manufactured products as well. Prices for the category of general machinery and precision instruments, for example, were up only 0.9 percent, while domestic manufactured goods prices as a whole inched up 1.0 percent.

With wholesale prices very flat for the second year in a row, consumer prices also subsided as Japan continued to have the lowest inflation rate among the members of the Organization for Economic Cooperation and Development (OECD). For 1982, consumer prices were up only 2.7 percent. From October to December, in fact, consumer prices slipped 0.5 percent. The only major increases were a 6.1 percent rise in education costs and a 5.1 percent jump in transportation and communication.

Monetary Policy

With inflation continuing at low levels and the economy performing sluggishly, the government faced an economic environment calling for some form of macroeconomic stimulus. With fiscal policy constrained (discussed below), monetary policy was the likely choice, but it too remained constrained throughout 1982.

By the end of 1981, the Bank of Japan (BOJ) discount rate had been cut in a number of steps to 5.5 percent. Since it is the rate at which the Bank of Japan lends to the commercial banks—analogous to the Federal Reserve discount rate in the United States—the BOJ discount rate is an important component of monetary policy. Despite low inflation and economic sluggishness, however, the discount rate remained unchanged throughout 1982.

Market-determined interest rates in Japan generally reflected the lack of movement in the BOJ discount rate. In the market for outstanding government 10-year bonds, the average interest rate fluctuated between 7.5 percent and 8.5 percent—slowly rising and then slowly falling to end the year approximately at the same level as at the beginning of the year. The *gensaki* market—a short-term financial market involving the trading of 10-year bonds with repurchase agreements—followed a similar trend, with three-month rates rising from 6.4 percent to a peak of 7.3 percent in August and back to 6.6 percent at the end of the year. The call rate—the rate at which commercial banks lend to one another (corresponding to the federal funds market in the United States)—followed a roughly similar pattern and level as the *gensaki* market.

Another indicator is the growth of money supply—with the relative merits of money supply growth versus interest rates depending on one's preferences in monetary theory. All major indicators of money supply from M1 to M3+CD registered lower growth in 1982 than in 1981, and all of them dropped by roughly similar magnitudes. M1'+CD for example, grew by 10.5 percent in 1981 and 7.8 percent in 1982. Thus, money supply indicators confirm that 1982 brought no easing of monetary policy.

Only late in the year did talk resume of easing policy through another discount rate cut, clearly showing that policy was tied to the fate of the yen on international exchange markets. When the yen began to appreciate strongly in November, there was a renewed call for lowering the discount rate. No decision was made to do so by the end of 1982, but it was under serious discussion.

Fiscal Policy

Despite the lower than expected economic growth performance in Japan, low levels of inflation and the constraints described above on monetary policy, the Japanese government did not pursue a more expansionary fiscal policy during 1982. This is evident in all of the central government budget activity—the FY 1981 supplementary budget enacted in February, the FY 1982 budget in April, and the process of formulating the FY 1983 budget beginning in the summer. The main reason for the failure to engage in more expansionary activity was the continuing administrative reform move-

ment and the linkage made by the movement's proponents between reform and deficits.

FY 1981 Supplementary Budget In February, the Diet passed a supplementary budget for FY 1981. Whereas supplementary budgets have been often used as a means of increasing expenditures, this one had more to do with managing the shortfall in taxes. Despite increases in some tax rates, the government's revenues from corporate income, personal income, commodity and stamp taxes fell below the estimates in the initial FY 1981 budget because of stable prices and the slow economic recovery. The supplementary budget assumed that tax revenues would fall short of original estimates by ¥452 billion ($1.8 billion).

On the expenditure side, the supplementary budget added only ¥337 billion ($1.4 billion) to the FY 1981 budget, bringing the total to ¥47.1 trillion ($189 billion). The supplementary budget actually increased expenditures ¥627 billion ($2.5 billion), including ¥263 billion ($1.1 billion) for additional public works necessitated by natural disasters and ¥155 billion ($0.6 billion) for increases in salaries of civil servants, but also reduced other expenditures by ¥289 billion ($1.2 billion).

The main purpose of the budget, though, was to authorize more bond issues to cover the tax shortfall. The revenue increases were ¥630 billion ($2.5 billion) from the issuance of public bonds, ¥111 billion ($0.4 billion) from nontax revenues, and ¥48 billion ($0.2 billion) in transfers from the previous year.

FY 1982 Budget In April, the budget for the new fiscal year completed passage of the Diet, and included an increase in general expenditures of only 6.2 percent over FY 1981. The increase in major sectors ranged from lows of zero for public works to 2.6 percent for education and 2.8 percent for social welfare, to highs of 13.2 percent for energy and 17.7 percent for debt service. Defense rose 7.8 percent and local finance 9.9 percent.

In FY 1982's budget, government spending for public works decreased in real terms. Because this reduction was not offset by a stimulative tax cut as some had proposed, an April 9 Cabinet meeting moved to concentrate 77 percent of public works spending in the first half of the fiscal year. This action assumed augmenting public works for the second half of the year by issuing additional construction bonds.

Despite the option of a supplementary budget, the reality of the initial FY 1982 budget was austerity. While the projected government deficit on general account expenditures under the new budget was estimated to be 26 percent (based on unduly optimistic tax receipt forecasts), the direction of movement continued to be toward restraint instead of stimulation.

As anticipated, a supplementary budget did materialize, although its passage was delayed until December 25, after the Nakasone government was in place. This made the move toward austerity even more definite, by *reducing* the expenditures in the original FY 1982 budget by ¥2.1 trillion ($8.4 billion) to cope partially with the tax shortfall, then estimated to be as large as ¥4.1 trillion ($16 billion).

The supplementary budget did increase expenditures for public works by ¥1.2 trillion ($4.8 billion) including hospital and school buildings, disaster relief construction, water supply and sewage treatement systems and flood and erosion control. But it more than compensated by reducing certain other expenditures by ¥3.3 trillion ($13 billion) by rolling over bonds falling due, cutting revenue payments to local governments, and freezing civil service salaries. The government was also authorized to raise an additional ¥3.9 trillion ($16 billion) in bonds, increasing total bond issues for the year to a record ¥14.3 trillion ($57 billion). Because of the increase in public works, the government tried to bill the supplementary budget as stimulative, but the true impact was clear.

FY 1983 Budget Process Because of the problems caused by inaccurate forecasts of tax revenues in FY 1981 and FY 1982, the budget process got off to a slower start than usual. In May, the Ministry of Finance announced that budget requests should be held below FY 1982 levels. By July this became more specific when guidelines were released calling for five percent cuts from FY 1982 levels in the budget requests to be submitted later in the year. As in the previous year, however, some exceptions were to be granted. Even with the exceptions and some automatic increases, the total budget was to rise only 1.5 percent.

At the very end of December, the process of submitting and negotiating over the budget requests was over, and the Cabinet approved a draft budget for submission to the Diet. The end result was virtually identical to the original guidelines, coming out at an overall general account budget increase of 1.4 percent.

With the exception of ¥2.3 trillion ($9 billion) to cover items carried over from FY 1982, expenditures were slated to fall 3.1 percent. General expenditures, which exclude debt-servicing costs and revenue sharing with local governments, were to be unchanged from the FY 1982 level.

Social welfare programs in the new budget grew a meager 0.6 percent—the lowest rate of incrase since 1955. Public works spending showed no growth for the third straight year, and allocations for education and science declined 0.9 percent. Defense spending, however, was to be boosted 6.5 percent and economic assistance to developing countries 7 percent in response to Tokyo's commitment to increase its security and aid targets. Attempts to link increases in social programs with hikes in the national defense budget collapsed.

At the same time, an anticipated revenue decline of 11.8 percent forced the government to authorize ¥13.3 trillion ($53 billion) in new bond issues—¥2.9 trillion over the FY 1982 forecast—upping the ratio of debt financing. In addition, the government intended to call up ¥4.7 trillion ($1.9 billion) from reserve accounts. Given the financial difficulties, no action was taken on a Diet committee request to cut income taxes, implying a tax increase through bracket creep.

Toshiwo Doko, chairman of the Government Administrative Reform Commission, commented that the government had not observed the commission's recommendations designed to achieve fiscal reconstruction without raising taxes (discussed below). Opposition parties, including the Japan Socialist Party, Komeito, and the Social Democratic Party, urged reconsideration of the budget, calling for income tax cuts and increases in social welfare programs. Leaders of the business community repeated their criticism that the negligible budget cuts made it difficult to understand the direction in which economic policy was leaning. Nevertheless, the budget was passed intact by the Diet in 1983.

A major feature of the FY 1983

budget compilation process was the increase allowed for defense spending, an important element in bilateral relations. The Finance Ministry had originally projected a 5.1- to 5.6-percent defense budget increase, arguing that anything higher would foil the government's efforts to control the deficit. The Japan Defense Agency (JDA), on the other hand, stressed that anything less than a 7.3-percent increase would undermine its plan to procure the additional military hardware called for in its 1983-1987 defense buildup program. The Prime Minister himself finally had to intervene to effect a compromise. Pressure from Washington helped to persuade members of the Cabinet and leaders of the Liberal Democratic Party (LDP) to overrule the Finance Ministry.

Administrative Reform As in the previous year, the question of administrative reform continued to be debated and became inextricably tied to the moves described above to reduce government deficits. Theoretically, the efficiency of government is unrelated to the size of government deficits, but proponents of reform felt that rising deficits provided a poor environment in which to achieve greater efficiency and accountability.

During 1982, the Commission on Administrative Reform continued to issue reports and press the government for action. The commission completed its third report to the Prime Minister in July, covering recommendations for spending reductions and budget cuts designed to reduce the government's deficit. The commission submitted its first report on expenditure restraints for FY 1982 in July 1981 and followed it with a second report in February 1982, recommending drastic rationalization of government regulation. This third report was considered the most important of the series since it spelled out the fundamentals or basic direction for administrative reform, as well as the specific measures to attain the goals.

The report called for fiscal reconstruction without tax increases and urged drastic restraints on expenditures. The corollary was the familiar conclusion that the public must assume more responsibility for education and welfare. The commission focused on restructuring the public corporations—the Japanese National Railways (JNR), the Nippon Telegraph and Telephone Public Corporation (NTT), and the Japan Tobacco and Salt Corporation (JTS). It recommended the following:

- The division of JNR into seven regional companies within five years.
- The reorganization of NTT within the next five years into an entity which controls only the trunkline communications circuits and supervises various regional companies in charge of district telephone services.
- Expiration of the monopoly enjoyed by the JTS.

The report recommended that the government set up a special committee to oversee the rehabilitation of JNR and formulate a plan for its division and transfer to private management. Such measures would include restructuring JNR's long-term debts and pension payments as well as a plan for reducing the railroad's operating deficit. In order to insure these reforms, the commission proposed a ministerial council chaired by the Prime Minister. The commission also recommended that the government establish a general administrative agency and merge the National Land Agency and the Hokkaido and Okinawa Development Agencies.

Although the Cabinet agreed to consider the recommendations at a meeting in September, eventual implementation was by no means assured. Strong resistance was already being voiced by the affected agencies and some Diet members. The debate promises to continue in 1983.

Political Developments

There is a widely held view that the nature of the Japanese system means that as long as the Liberal Democratic Party (LDP) is in power, Japan's policies will remain the same no matter who is prime minister. It is certainly true that the LDP has ruled the country since 1955 and has built a powerful network within the bureaucracy and the business community. With the resignation of Prime Minister Zenko Suzuki in the fall of 1982, however, the political picture began to shift. The new prime minister, Yasuhiro Nakasone, introduced a political style to which the old guard was unaccustomed, and addressed a number of thorny domestic and foreign policy issues. Thus, this political development did have important implications for economic developments in Japan and bilaterally.

Nakasone Election

Prime Minister Zenko Suzuki, who displayed remarkable resilience for more than two years, surprised the nation with his announcement in September that he would not seek re-election. As prime minister, although he stumbled on a few diplomatic issues, Mr. Suzuki was given credit for cementing party unity, balancing factional appointees, and launching a vigorous campaign to streamline the government bureaucracy and reduce expenditures. Few doubted that he would be re-elected president of the LDP in the scheduled November party election—a post which carries with it the premiership since the LDP is the majority party. Apparently, though, the prime minister felt that mounting criticism of both his domestic economic policies and his alliance with the powerful Tanaka faction posed the risk that his government would not survive a second term. In the ensuing political vacuum, none of the factions in the party had enough votes to assure success. Senior party leaders, who anticipated a fierce campaign and an enormous outlay of funds, hesitated to call a primary election. The possibility of the campaign becoming vicious also seemed likely, which would, in turn, invite public criticism of the party leadership. They feared that the schism might weaken the party, leaving it vulnerable in the elections scheduled for 1983.

LDP politics are overwhelmingly influenced by the factional power balance within the party. There were in 1982 five major factions—none of which dominated. Alliances on individual issues were therefore indispensable to assure success. Unable to reach a consensus in this case, four politicians readied primary campaigns: Toshio Komoto, director general of the Economic Planning Agency and leader of his own faction; Yasuhiro Nakasone, leader of his own faction and director general of the Administrative Management Agency; Shintaro Abe, a senior leader in the Fukuda faction and former Minister of International Trade and Industry (one of the posts considered to be a prerequisite for an aspiring prime minister); and Ichiro Nakagawa, director general of the Science and Technology Agency, who did not

expect to win the election but wanted to consolidate his long-term power base.

The result was that the primary election, in which more than 90 percent of the one million party members voted by mail, was clearly won by Mr. Nakasone on November 24 with 57 percent of the total vote. Mr. Komoto trailed far behind with 27 percent; Mr. Abe with 8 percent and Mr. Nakagawa had less then 7 percent. As the clear victor, Mr. Nakasone was unchallenged in the final party election, and the Diet formally voted him in as prime minister on November 26.

At issue in the primary was the quality of leadership projected by the candidates, rather than their positions on specific issues. Although Mr. Nakasone emphasized government cutbacks and Mr. Komoto favored stimulative economic measures, the press reported that these divisions did not influence the voters. Ironically, the question of the Lockheed trial and Mr. Tanaka's political influence was ignored by party members, and criticism of Mr. Tanaka by the Komoto, Fukuda and Nakagawa factions worked to the advantage of the Tanaka-Suzuki-Nakasone alliance.

Moving quickly, the new prime minister announced his cabinet on November 26. The reaction to the Cabinet appointments from other factions and from the press was sharp. They condemned the prime minister for relying on men from the Tanaka faction and contended that these appointees were intended to protect the accused former prime minister. Suspicions centered on Akira Hatano, Minister of Justice, and Masaharu Gotoda, chief Cabinet Secretary. Another Tanaka confidant, Susumu Nikaido, was retained as Secretary General of the LDP. Altogether, six members of this faction received cabinet posts—the largest single group in the Cabinet. It was generally agreed that Mr. Tanaka's power was reinforced as a result of Mr. Nakasone's election.

The business community was worried primarily about the budget deficit and government expenditures. This group's primary interest is always political stability, and that concern was laid to rest when Mr. Nakasone racked up a clear majority. The press, however, was not persuaded, and in fact predicted that the Nakasone government would be short-lived. This initial press view changed somewhat before the year ended, shifting toward a scenario of Nakasone surviving the problems posed by the upcoming trial of former prime minister Tanaka. That outcome was clearly destined to be a major political issue in 1983.

Impact

Even though Prime Minister Nakasone was yet another LDP face, his election did hold a number of implications for U.S.-Japan economic relations. These were evident from his domestic policy position, his attitudes on defense and his personal style.

On domestic policy, there was no doubt that the new prime minister would continue the Suzuki commitment to a reduced government deficit. In his preceding post as head of the Administrative Management Agency, Mr. Nakasone pressed for government administrative reform. As discussed above under fiscal policy, the concept of administrative reform became inextricably tied to reducing the government deficit and limiting government expenditure. This, in turn, carried implications for the growth of the Japanese economy and its ability to increase imports.

The new prime minister was also on record as strongly in favor of a strengthened defense posture for Japan. As discussed in Part VI, this was a development which pleased the U.S. government, but it was also one of Mr. Nakasone's main liabilities in Japan. Thus, defense promised to become an area where U.S.-Japan relations would improve, but one that held the threat of helping to terminate Mr. Nakasone's tenure as prime minister.

Finally, there was the question of style. Mr. Nakasone was a rare politician in the traditional Japanese sense. He had long proved to be a powerful orator and stood in sharp contrast to the older style of leadership, whose chief concern was with party rivalries rather than public support. He was also one of the few politicians to understand the potential exposure offered by the media, and the first to take the initiative to communicate his political philosophy. Americans could understand his clear, unambiguous positions on major issues better than his predecessor's statements. As with the defense issue, though, the contrast between international and domestic reaction was strong. At home, many viewed his outspokenness with suspicion. In a society of concensual decisions emerging from painstaking, quiet discussions, his style was jarring and guaranteed to generate controversy. Thus, on this point too, there was the possibility of better relations abroad, but a danger of shortening the time to the next power shift, with all its attendant effects on postponing major policy decisions.

Energy Policies

Energy supplies, and policies to reduce the risk of its interruption or instability, have been a high priority since 1973. Despite the movement toward a worldwide oil glut Japan reacted cautiously, with consumption dropping and policies to conserve energy and switch to alternative sources still in place.

Energy Supply and Demand

Actual consumption in calendar 1982 dropped, and the long-term forecasts by MITI continued to call for cuts in the share of oil in total energy supply.

1982 Consumption Japan imported 215 million kiloliters of crude oil in 1982, a 7-percent decline from 1981, making the third consecutive year of falling oil imports. The decline was far more than just the result of sluggish economic condition, since GNP was up by 3 percent in real terms. The drop was the result of continued conservation efforts and switching to alternative energy sources in response to the 1979 oil shock.

While the use of heavy oil by industry declined, consumption of various light fuels either increased or stabilized. A drastic decline was seen in naphtha, an input used in most petrochemical products. The decline in naphtha consumption resulted in profit losses for refineries already plagued by excessive inventory, competition from abroad and what the government called "weak business structure."

In the case of other energy sources, coal imports in 1982 were 77.8 million tons, down slightly from the previous year (78.0 million tons). Domestic production was expected to stay at the same level as in 1981—17 million tons. Imports of liquefied natural gas (LNG) steadily and slowly increased to reach a level of 16 million tons.

The basic structure of energy supply was relatively unchanged from the previous year, with reliance on petroleum

(over 60 percent) still much higher than was the case in the United States. Coal was the second most important energy source, but it remained a much less important source than in the United States.

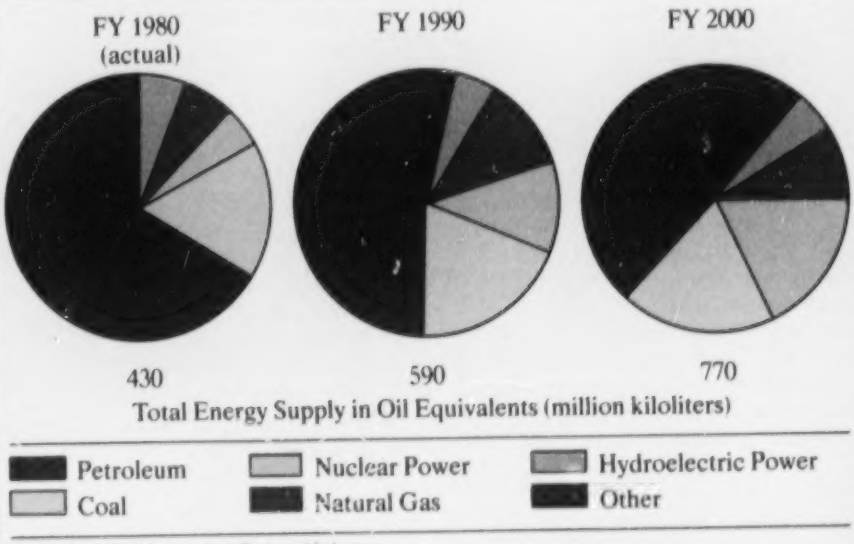
One of the major changes since 1980 in structure of Japan's energy use, though, came in the generation of electricity. While oil was still the most important source of electricity, the use of nuclear energy was steadily increasing. In 1980 about 70 percent was generated by thermo power, mostly oil derived, while 14 percent came from nuclear energy and 16 percent from hydro power. In the first six months of 1982, nuclear energy generated 23 percent of total electric supply, surpassing hydro power. During 1982, 25 nuclear plants together generated more than 100 billion kilowatt-hours for the first time. The capacity utilization rate reached 70 percent, the highest ever achieved in Japanese nuclear plant operation.

Long-Term MITI Forecasts The basic long-term forecast on energy supply and demand was established by MITI in 1979. Despite the stabilization of oil prices in 1982, revisions to the forecast continued to include a reduction in the relative dependence on imported petroleum. The 1982 version of the forecast, announced in April, called for an annual average growth of energy consumption (kiloliters oil equivalent) of 3 percent between FY 1980 and FY 2000 (based on an assumption of 5 percent average real GNP growth). Thus, efforts to continue the rise in efficiency of energy use were expected to continue.

In terms of structure, the forecast called for a reduction in the relative role of petroleum from 66 percent of total energy supply in FY 1980 to 49 percent in FY 1990 and 38 percent in FY 2000. Coal was given only a modest gain from 16.7 percent in FY 1980 to 19.5 percent in FY 1990, and holding steady at that level. Nuclear energy remained a major hope, climbing rapidly from only 5 percent in FY 1980 to 11.3 percent in FY 1990 and 18 percent in FY 2000.

Basically, the attitude at MITI was that the ease in world oil market conditions during 1982 would prove to be temporary and that Japan needed to continue its policies in order to be better positioned for the next crisis. However, MITI faced the necessity of further, more major revisions by early 1983 as the economic growth assumptions were proving to be unrealistically high and as OPEC power to hold prices weakened further. Long-range developments in Japan's energy situation were important to bilateral relations in a number of ways, including future competition for oil supplies, the prospects for U.S. coal exports and prospects for joint research on new energy technologies.

MITI Revised Energy Supply Forecast



Source: Ministry of International Trade and Industry

Petrochemical Industry Problems

A more immediate outcome of declining economic growth and declining petroleum product demand was financial difficulty for Japan's petrochemical industry. During the summer of 1982, the Industrial Structure Council, the advisory group attached to MITI, proposed a reorganization of the industry. A major program for scrapping or freezing excess capacity was recommended by the council, which proposed that the recession-hit producers consider rationalizing operations which were suffering from soaring costs of raw materials, stagnant domestic demand, declining exports and increasing imports.

The advisory group noted that all of these problems affected the 12 major companies operating ethylene (a basic building block for downstream petrochemical intermediates and products) production facilities, and producing a deficit of about ¥57.5 billion ($231 million) for FY 1981. The report estimated that domestic production of ethylene would not keep pace with the growth of domestic demand because imports could be counted on to be more competitively priced.

In conclusion, the report recommended that the industry consider joint production and investment, joint purchase of raw materials, and joint imports of petrochemical products. It suggested that the industry turn its attention to cooperative research and development projects, joint sales, rationalization of distribution and scrapping or freezing of excess capacity. None of these proposals was implemented in 1982, but the arguments became part of the debate over establishing a new depressed industries law to replace the one passed on 1978 that would expire June 30, 1983.

In lieu of these more drastic measures, the industry was allowed to form a recession cartel in October. The Fair Trade Commission gave the 12 producers of ethylene permission to use the cartel to jointly cut back output. During the five-and-one-half months the cartel was to be in effect, petrochemical manufacturers were to limit their ethylene production to 1,555,000 metric tons, which lowered the industry's operating rate from 1981's 60-percent level to 55.5 percent.

Even with the cartel in place, MITI continued to consider what other meas-

ures ought to be undertaken for the industry. MITI desired, for example, to reorganize the 12 ethylene makers into four groups to eliminate one of the petrochemical industry's major weaknesses—the small size of its companies with the attendant loss of economies of scale in production that leading international manufacturers achieve through large plants. However, it did not have the leverage to persuade the 12 firms to merge, nor could it figure out how to scrap the petrochemical industry's excess etyhlene production capacity, pegged at a minimum of 2 million metric tons, without crippling profitable downstream parts of the industry.

As part of their own strategy, the ethylene producers threatened to bring a dumping suit against imports from the United States of two ethylene derivatives, styrene monomer and ethylene glycol. However, the companies had difficulty documenting injury from the allegedly dumped shipments. Because of the industry's price war, domestic producers of styrene monomer were undercutting the American-made product in the Japanese market by fall, while makers of ethylene glycol continued to import this intermediate from the United States.

Nuclear Energy

As indicated by the long-term MITI forecast, development of alternative energy sources remained a vital part of overall energy policy during 1982. While more exotic forms of energy, such as solar, figure in the plans, little payoff was seen from work in those areas until the 1990s. The policy developments in 1982 rested in nuclear energy.

After more than a year of study, Japan's Atomic Energy Commission proposed a new long-term nuclear energy policy in June. The report confirmed the earlier emphasis on peaceful uses of nuclear power, as well as stronger safeguards and closer international cooperation. In addition, the commission wanted Japan to become more independent in the technological development of uranium enrichment, the reprocessing of spent nuclear fuels and the development of fast breeder reactors.

Entirely dependent on imported uranium, Japan had signed as of 1982 long-term contracts for delivery of more than 170,000 tons by the early 1990s, and was similarly tied to American and European uranium-enriching technology. The long-term plan called for efforts to build and encourage domestic enriching technology, and suggested that Japan push for commercialization by 2010 of fast breeder reactors in order to use reprocessed plutonium. In the interim, however, the report urged construction of new types of nuclear plants to be used until the breeder reactors would be operational.

The research and development costs for the next ten years were estimated at ¥5.4 trillion ($21.7 billion), of which ¥1.6 trillion ($6.4 billion) would be spent on construction. The most vulnerable aspects of the plan were the funding proposals and the necessity for community acquiescence in siting facilities. The lead time between selection of location and actual operation was lengthening because of local opposition, expressed through negotiations over compensation, legal battles and demonstrations by anti-nuclear activists. However, there was no doubt that the guidelines reinforced the position espoused by government officials on long-term energy security.

Director General Ichiro Nakagawa of the Science and Technology Agency, and the head of the Atomic Energy Commission, visited Washington in June to press for more freedom to reprocess spent fuels at the Tokaimura plant and at future projects. The Reagan administration was very concerned about exports of nuclear technology to developing nations and urged Japan to tighten its export policies to insure that no technology was likely to be diverted for military purposes. Along with the other signatories of the London Guideline, which prohibits use of nuclear technology and fuel for arms production, Japan was unlikely to knowingly supply nuclear technology for armaments, but American officials reportedly felt the Japanese regulations remained lax.

Despite the problems—both domestic and international—associated with nuclear power, the government remained optimistic that dependence on nuclear energy could be increased. In April, the government's advisory council on electric power announced its prediction that by FY 1990 nuclear-generated electric power would rise to 22 percent of total electric supply, up from 12 percent in FY 1980, while oil-generated electric power would drop from 46 percent to 22 percent.

Trade and Payments

Balance of Payments Data

Merchandise Trade Japan's merchandise trade surplus on a balance-of-payments basis contracted slightly to just over $18 billion (from $20 billion in 1981). The contraction in the surplus was evenly distributed. Merchandise exports fell to $137.7 billion, down 7.9 percent in the first decline since 1952, while imports slid to $119.5 billion, down 7.8 percent. The decline reflected the generally depressed stat of the world economy that held down demand for exports as well as a 6.7 percent drop in oil imports.

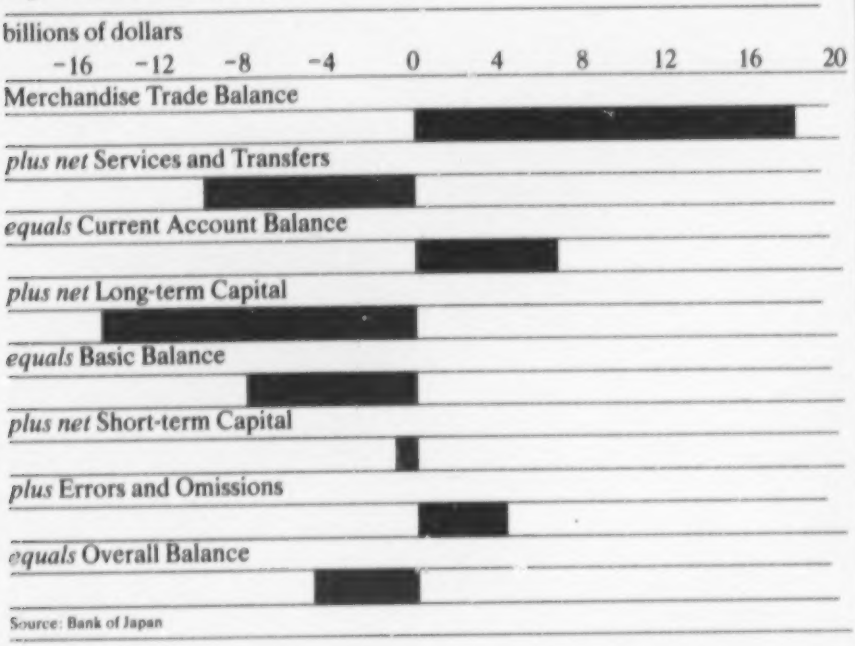
However, the trade figures calculated in yen show a different picture, revealing slight increases in both exports and imports. The differences between the yen and dollar figures are attributable to the yen's depreciation (see Part III).

Service and Transfers As in 1981, the merchandise trade surplus was partially offset by a deficit of $9.9 billion in services. This was a decline from 1981's record $13.6 billion services deficit, a reduction that was primarily attributable to the lower volume of merchandise trade that decreased the need for transportation services.

For the first time, investment exceeded transportation as the largest component of services trade, accounting for 44.6 percent of service exports (i.e. receipts) and 32.6 percent of imports (i.e. payments) in 1982, leaving a $1.7 billion surplus. The transportation category remained substantial and took a larger share of services imports (33.2 percent) than investment income but fell behind in exports with only 32.6 percent (down from 38.6 percent in 1981). Altogether, the transportation category contributed a $3.5-billion deficit. Another substantial category of services trade is travel, which remained stable from 1981, making up 1.8 percent of services exports and 8.1 percent of imports, for a large $3.4-billion deficit. Royalty transactions continued to remain in deficit at $1.2 billion, slightly smaller than 1981's deficit.

Japan has continuously run deficits on unilateral transfers because it is a donor rather than a recipient of foreign aid. In 1982 this deficit came to $1.4 billion, down from $1.6 billion in 1981. This reflected a drop in private

Japan's Balance of Payments, 1982



Source: Bank of Japan

outflows as well as a slight decline in unilateral transfer receipts.

Current Account The current account is the summation of merchandise trade, services and unilateral transfers. The surplus on this balance came to a modest $6.8 billion, up from $4.7 billion in 1981. The year began with a first-quarter deficit of $899 million that reversed itself to register a $2.4-billion surplus in the second quarter. Surpluses of $2.8 billion and $2.3 billion were also recorded in the third and fourth quarters, respectively.

Capital Flows and Official Reserves Japan's pattern of net outflows of long-term capital continued in 1982. The net outflow of long-term capital was $15 billion for the year, up from $6.5 billion in 1981. The first three quarters registered net outflows of $581 million, $457 million and $465 million, respectively. A slight switch occurred in the fourth quarter with a $1.9 million inflow. The large outflows throughout most of the year were primarily the product of a continued large interest-rate differential between Japan and the rest of the world that began in 1981 (see Part III). As interest rates drew closer together in the second half of the year, the switch to a net inflow occurred.

The basic balance (current account plus long-term capital) showed an $8.1-billion deficit, much larger than the 1981 $1.7-billion deficit but similar in size to the 1980 $8.3-billion deficit. The wider deficit was due mainly to the greatly increased long-term capital outflows.

Short-term capital also registered a small net outflow of $960 million, nearly identical to the $958 million net outflow in 1981. This marked the second year in a row that this traditionally surplus account had run a deficit. The short-term capital outflow and a $4.1-billion positive entry for errors and omissions yielded in overall balance (basic balance plus short-term capital plus errors and omissions) deficit of nearly $5 billion, up from $2.1 billion in 1981. By quarter, the overall balance registered deficits of $3.3 billion in the January-March quarter, $3.4 billion in April-June and $73 million in July-September, while a $1.8-billion surplus was recorded in October-December.

As an accounting identity, the overall balance deficit is equal to the balance on monetary movement—the flow of currency in or out of the country. In 1982 official gold and foreign exchange reserves fell by $5.1 billion because of the Bank of Japan's intervention in the market to cushion the fall of the yen. "Other" monetary movements showed a surplus of $170 million, reversing the $5.3 billion private outflow of 1981.

Customs Clearance Trade Data

Japan also publishes merchandise trade data on a customs clearance basis in which exports are measured f.o.b. and imports c.i.f. (cost including freight). For some purposes, this data provides a better concept of the costs and receipts from merchandise trade. Using this method of accounting, Ministry of Finance trade statistics show that Japan's global trade surplus for 1982 was $6.9 billion, a decline from 1981's surplus of $8.7 billion. Exports were $138.8 billion, down 8.7 percent, and imports were $132 billion, down 7.9 percent. This was the first export drop since 1952. The declines occurred because of the unfavorable world economic conditions described in Part III, despite the depreciation of the yen that made Japanese exports more price competitive.

It must be noted that the trade figures calculated in yen show a different picture because of the yen's depreciation during 1982. Measured in yen, the surplus was ¥1.8 trillion, falling slightly from a ¥2-trillion surplus in 1981. Exports stood at ¥3.4 trillion, up 2.9 percent while imports were at ¥32.6 trillion, up 3.8 percent.

The slump in exports measured in dollars contrasted with expansions of 17.1 percent in 1981 and over 20 percent in 1980. The export contraction grew steadily worse throughout 1982, growing only in January (8.9 percent compared to year-earlier levels). Change then turned negative, going from a drop of 2.9 percent in February to 8.3 percent in May and 11.6 percent in August. The largest fall was recorded in October at 17.8 percent which then improved slightly to 13.3 percent by December. Thus, exports steadily contracted during the year, with only a slight improvement at the end of the year.

Imports measured in dollars contracted at a slightly slower pace than exports. As was the case with exports, the only expansion occurred in January at 1.8 percent. Imports fell through the early part of the year, registering an 11.9-percent decline in May. The contraction stayed close to this level throughout the rest of the year, except for a slight improvement to only a 5.3-percent drop in August, before showing the largest fall of 15.8 percent in December.

Trade by Region The lower trade

surplus in 1982 reflected declines in exports to all areas of the world. The communist bloc accounted for the largest decrease over 1981 in exports, with a 11.7-percent fall. The developing countries followed with a 9.3-percent decline, while the developed countries accounted for a 7.7-percent drop. Imports experienced smaller declines, outweighing falls in exports only in the developing countries which had a 9.7-percent decrease. Imports from the developed world decreased 5.7 percent while those from the communist bloc fell 3.8 percent.

Within the developed world, exports to the United States totaled $36.3 billion, down 5.9 percent, and imports totaled $24.2 billion, down 4.4 percent, bringing the bilateral trade surplus to $12.1 billion—down from the record $13.3 billion in 1981. Exports to the European Community fell 9.7 percent to $17.1 billion with imports showing a 11.6-percent decline to $7.6 billion, for a trade surplus of $9.5 billion, also down from 1981.

The trade deficit with the Middle East was $20.8 billion, down from $24.9 billion in 1981 and $30.1 billion in 1980. This drop represented a decrease in exports of 10.8 percent to $16.9 billion, which was more than offset by an 11.5-percent decline in imports to $37.8 billion (from $42.7 billion in 1981). The decrease in imports reflected the continued decrease in oil consumption in Japan described earlier in Part IV. In another major area, Southeast Asia, trade also decreased. Exports stood at $31.9 billion, down 7.4 percent, while imports were $30 billion, down 6.1 percent. This gave Japan a surplus of $1.9 billion, compared to $2.5 billion in 1981.

Within the communist bloc, trade with Eastern Europe experienced drastic declines. Exports totaled $584 million, 22.9-percent lower than 1981. Imports fell 13.2 percent to $200 million. Trade declined less for the area as a whole, 11.7 percent for exports and 3.8 percent for imports. Trade with the PRC recorded only the second deficit since World War II, at $1.8 billion which was the result of a 31-percent drop in exports since imports increased 1.1 percent. Trade with the Soviet Union revealed a 19.6-percent increase in exports, reflecting the strength of increased shipments of steel and construction machinery, and a 16.8-percent decrease in imports.

Exports by Product The 8.7 percent drop in exports was spread throughout the many product categories. The machinery and transportation sector, which in 1981 had one of the highest rates of increase, fell 9.6 percent in 1982 with declines occurring in all three major subsectors. Nonelectric machinery fell 10.2 percent, with heating and cooling equipment down 12 percent and machine tools down 28.8 percent. The only bright spot was a 19-percent increase in office equipment. Electric machinery exports were down 12.2 percent, compared with a 20.2 percent increase in 1981, and included an 18.1-percent drop in telecommunications equipment. Items under transportation equipment, down 7.8 percent, included: passenger cars (down 2.3 percent), ships (down 5.5 percent) and assembled trucks and buses (down 18.6 percent).

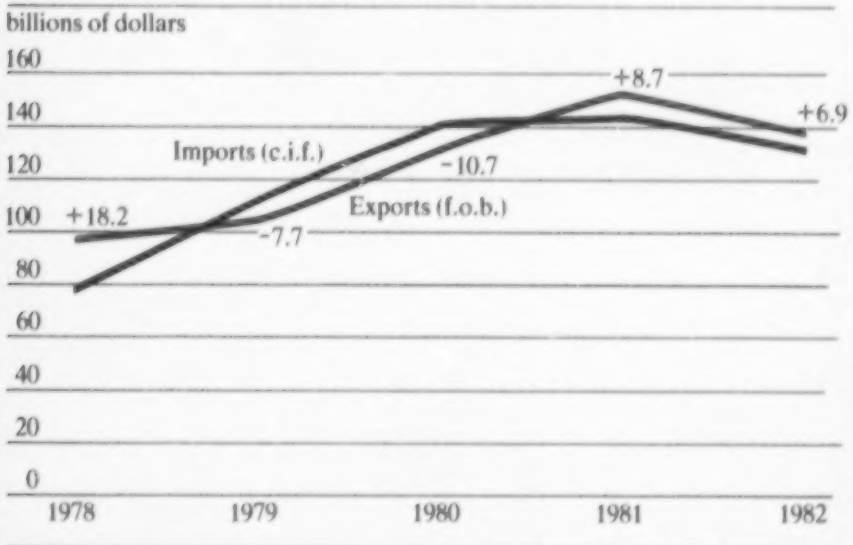
Basic manufactured products also fell, down by 7.7 percent. Natural-fiber textile exports (excluding apparel) fell 13 percent and nonmetallic mineral manufactures fell 8.4 percent. The important export category of iron and steel did very poorly (down 6.1 percent), compared to a 7.9-percent increase in 1981. Two of the three major iron and steel product exports, universals, plates and sheets, and tubes, pipes and fittings, were down 4.7 percent and 5.9 percent, respectively. Bars, rods, shapes and sections, however, were up 5 percent.

Other major miscellaneous export items that fell included tape recorders (down 0.9 percent), cameras and parts (down 17.3 percent) and scientific, medical and optical equipment (down 12.2 percent).

Imports by Product Mineral fuels were once again the most important import, accounting for 49.7 percent of the value of imports, showing a decrease of 9.6 percent in dollar value from 1981. Broken down, coal totaled $5.8 billion (up 4.7 percent), petroleum and petroleum products totaled $51.4 billion (down 12.4 percent), and natural and manufactured gas totaled $8.4 billion (up 0.7 percent). The small increases in coal and gas were more than offset by the fall in petroleum. It should be noted that petroleum and petroleum byproducts also declined in quantity terms, 23.2 percent, for the third year in a row.

Agricultural imports, an area of special importance to the United States, totaled $13.7 billion, a decline of 9.1 percent from 1981's $15.1 billion. This decline reflected declines in world commodity prices (see Part III) rather than a fall in the quantity of agricultural imports. Fish products and unmanufactured tobacco were the two major categories that rose in value, with fish up by 7.2 percent and unmanufactured tobacco by 5.6 percent. Grains and cereals showed the biggest decline (20.6 percent), including major drops in corn

Japan's Customs Clearance Merchandise Trade



Source: Ministry of Finance

(26.1 percent), wheat (12 percent), and sorghum (23.3 percent). Meat products also fell by 11.2 percent to $1.7 billion.

Chemical imports were up 5.2 percent in 1982, to $6.8 billion. Within this category, chemical elements and compounds rose by 5.5 percent to $3.2 billion and pharmaceuticals were up 8.6 percent to $1.3 billion.

Imports of basic manufactured products fell by 3 percent, including contractions in such products as leather (down 10.4 percent), wood manufactures (down 10.9 percent) and textiles (down 1.6 percent). Iron and steel, however, rose to $1.2 billion, up 13.9 percent.

Machinery and transportation equipment decreased 11.5 percent to $8.2 billion. Both nonelectric and electric machinery imports were up, however, 5.0 percent and 1.9 percent, respectively. Transportation equipment was responsible for the decline in this sector, down a huge 47.8 percent because of a 40.3-percent decrease in aircraft and a 90.8-percent decrease in ships more than offset a 6.7-percent increase in passenger cars.

International Economic Policy

Response to Trade Tension

The main problem for Japan's international economic policy was how to deal with trade conflict. Most of the details of this policy process are dealt with in Part VI, since they were intimately tied to the bilateral framework. In addition, trade problems with the European Community (EC) are considered below. The main thrust of the Japanese response was to make unilateral concessions in the form of market access packages that were hoped to diminish foreign criticism. These were released in late January and late May.

As in previous periods of conflict, the nature of the response was focused on specifics. Pressure from the United States and the EC began on a rather general level, calling for Japan to take actions to demonstrate its commitment to the liberal trading system. The Japanese government maintained a dogged insistence in the face of this pressure that the complaints and dissatisfaction be more specific and concrete. Thus the discussion and negotiation shifted to a large number of very specific items.

Also continuing or repeating previous behavior, Japanese responses were geared to allay embarrassing criticism of Japan at international meetings. The May package of concessions, in particular, was intended to pave the way for a smooth industrial-nation summit meeting at Versailles in June. That aim was successfully accomplished, as described in Part II.

Besides responding to specific merchandise trade problems, the Japanese government also faced unenviable choices on capital control policies, complicated by a perceived need to defend the value of the yen. As further moves to ease conflict, Japan continued to promote plant exports and foreign direct investment as well. Foreign aid too, was expanded as part of Japan's contribution to world economic stability. These are all described separately below, along with the trade problems with the EC.

Capital Investment Policy

Earlier in Part IV the constraints on Japanese monetary policy caused by the strong unease over the falling value of the yen were described. Similar problems faced policy on international capital control policies. Beginning in the late 1960s, and strongly ratified by the 1980 Foreign Exchange Control Law, Japan has been steadily liberalizing international currency and capital transactions. The government remained committed to that goal in 1982, but the fear over the falling yen temporarily overshadowed it.

Liberalizing Actions Among the moves that did continue the trend of liberalization was action under ministry directives implementing Japan's new banking law (April 1) to accord foreign banks the same treatment as domestic banks, prompted by complaints from foreign banks about operating at a competitive disadvantage. That conviction was heightened when domestic banks were given the right to issue foreign currency loans in Japan (so-called impact loans)—control of which had previously been the exclusive privilege of the foreign banks.

Not all of the changes included in the new regulations were a clear benefit, however. For example, foreign banks were now required to set aside bad-debt reserves (which might be larger than the banks would allocate without the prodding of regulation). Large loans were restricted as well, to 20 percent of the bank's capital (equity plus reserves), but to make this less onerous, the bank's total capital, rather than just its branches in Japan, were to be used to calculate this limit. Another unwelcome aspect was that banks in Japan are compelled by the Ministry of Finance to participate in syndicates to buy new issues of Japanese government bonds. In this case, officials indicated that foreign banks would be excused from participation.

On the plus side, foreign banks were to be allowed to establish additional branches and even to buy existing Japanese branches. In addition, banks were given the option of incorporating in Japan.

Japanese banks operating abroad were also given a bit more freedom. In the middle of the year, the Ministry of Finance decided to allow each commercial bank to open two overseas offices in FY 1982. During the two-year period of FY 1980-FY 1981, only one new branch was allowed, and during the preceding three years it was one per year. The industry hoped that the slight easing of the limits would eventually lead to a complete liberalization of foreign branching by FY 1984. This move increased the potential for capital outflow in the future, and the proliferation of branches made the government's ability to control those flows more difficult.

A more important discussion during the year was of an offshore banking market, similar to the International Banking Facility opened in New York. The idea did not progress to the point of specific proposals, but it was assumed to include an exemption from withholding tax on non-resident deposits and a freeing of interest rates on Euroyen deposits (interest-rate ceilings on dollar deposits in Japan had already been lifted). As has often been the case, proponents called this a way to keep foreign financial circles happy, rather than touting domestic benefits.

Opponents of the offshore idea worried about losing control over domestic interest rates if ready access were available to Euroyen deposits. As might be expected, the Bank of Japan gave the idea a cool reception, fearing that it would create problems for domestic financial markets, still constrained by some controls on transactions and interest rates. Bank of Japan Governor

Mayekawa told the press that the possible benefits of such an operation needed "further study," a way of announcing opposition—strong enough to prevent legislation from being submitted to the Diet. However, the idea was still very much alive at the end of the year.

Beyond these actions and discussions on rules governing financial institutions, the Ministry of Finance also argued that Japanese capital markets were already sufficiently open, and that foreign criticism to the contrary was unfair. In February the Ministry of Finance (MOF) submitted a study of Japan's financial markets to the Committee on External Economic Affairs of the Liberal Democratic Party headed by Masumi Esaki. This study rebutted foreign criticism that Japanese financial markets were closed, criticism which the ministry felt was based on misunderstanding and out-of-date knowledge about the Japanese financial system and administrative practices. The study emphasized that equal, and in some cases favorable treatment, had been extended to foreign financial institutions.

In the study, the MOF delineated its treatment of foreign banks, stating that it did not prohibit investment and that it was approving the establishment of new or additional branch offices for foreign banks more frequently than for domestic banks. The MOF also said that it allowed foreign acquisition or takeover of domestic banks with the agreement of the banks concerned, provided the Fair Trade Commission (JFTC) approved. The MOF noted that foreign banks could participate equally in low-interest financing from the Export and Import Bank, in the Tokyo Clearing House and bank wire transfer system. Foreign banks were also treated favorably in the issuance of certificates of deposit (CDs) where the issuance ceiling for foreign banks was higher than for domestic banks and was not bound by the Bank of Japan's window guidance, nor was the guidance over fund raising in the discount and call markets normally applied to domestic banks extended to foreign banks. However, the MOF had not approved expanded ceilings for CDs or the liberalization of interest rates on inter-bank deposits because it felt that no liberalization was feasible in the context of the 1982 international financial environment. They also did not approve the issuance of bank debentures by foreign banks because that avenue was permitted only for long-term credit banks.

In regard to the insurance industry, the MOF indicated that the Japanese government had been dealing with the issue of foreign investment, as evidenced by the large number of foreign insurance companies granted approval to operate in Japan. The MOF also stated in its report that it had not prohibited foreign investment in the securities industry. It noted that the law was changed to allow foreign securities dealers to operate in Japan. The Tokyo Stock Exchange (TSE) also voted to allow foreign firms to purchase seats on the exchange, but the TSE had only 83 seats and a large number of small Japanese companies had been waiting for the next one available.

Capital Control Actions Despite these moves, and arguments to further open Japan's capital markets to international flows, a very real need to defend the depreciating yen remained and the government used what powers it had to influence the trend by restraining capital outflow. Administrative guidance over the volume of overseas loans by Japanese banks, the volume of issues of yen-denominated bonds in Japan by foreigners, the amount of foreign currency holdings that banks could convert into yen and the volume of Eurobond issues by Japanese companies continued during the year. In addition, the falling value of the yen gave rise to several new controls during the year, namely the prohibition on foreign zero-coupon bond purchases and limits on foreign securities purchases by Japanese insurance companies.

Early in 1982, Japanese investors became very enamored with foreign zero-coupon corporate bonds. These bonds pay no explicit interest, but are sold at a discount from the face value at which they will eventually be redeemed. Interest is implicit in the amount of the discount (with the market value appreciating over time toward face value at a rate depending on long-term interest rates). As a result of the soaring popularity of these issues among Japanese investors, the Ministry of Finance (MOF) halted all dealings in these bonds in Japan at the beginning of March.

The surge of popularity was a reaction to the "green card" system devised by the MOF to crack down on interest-income tax evasion. Although that system was not slated to go into effect until 1984, investors began shifting their portfolios out of illegally large tax-free savings accounts into other tax-sheltered assets. Apparently, officials were caught completely off guard by the unconventional implicit interest income offered by these bonds and the obvious possibilities for tax evasion since capital gains are not taxed in Japan.

During January and February of 1982, Japanese buyers purchased $1.5 billion of these bonds. This sizable capital outflow was predictably unpopular with the MOF, preoccupied by the falling value of the yen induced by net capital outflow. The MOF warned that this sudden demand for foreign zero-coupon bonds would accelerate the decline of the yen. The ban remained in effect for the rest of the year. However, by the end of the year, it was becoming clear that the green card system would be indefinitely postponed or dropped, and thereby reduce investor interest in these bonds.

The second measure taken came in June in response to continued yen weakness when the MOF extended its guidance to insurance companies on purchases of foreign securities. Under pressure from the MOF, the five largest insurance companies agreed to restrain purchases of foreign currency bonds. The increase was limited to 10 percent of the total increase in assets during the quarter (compared to 16.3 percent in FY 1981). Smaller insurance companies followed suit.

Besides adding these two new controls, overseas loans and foreign bond issues in Japan were tightened during the course of the year. Yen-based overseas loans were to be limited to a level in the second half of FY 1982 that was no higher than in the first half of the fiscal year. Loans were reportedly up 100 percent over year-earlier levels during the first half of the year and the MOF wanted to slow this pace. Yen-based bond issues in Japan by foreign entities were similarly limited to a level 10 percent below the first half of the fiscal year.

Despite these capital control measures taken, the Japanese government did not possess sufficient power over capital movements to affect to any noticeable degree the fortunes of the yen on foreign exchange markets (Part III). The trend toward liberalization could not be reversed easily to suit the needs of the moment. In fact, when an article by C. Fred Bergsten, former

Assistant Secretary of the Treasury, appeared in the summer calling on Japan to declare a moratorium on all capital outflow in order to help the yen, Japanese monetary authorities were upset. When a rise in the yen's value did come, it was because of falling U.S. interest rates and not capital controls imposed by Japan.

Developing Country Debt Problems The interplay of liberalization and control of capital transactions just described was motivated largely by the changes in the value of the yen on foreign exchange markets, but Japanese banks' exposure in developing countries with high default risk also became a factor during the year. This rose to the surface at the time of the World Bank/IMF meetings (Part III), when Mexico announced to its intention reschedule its debt payments.

In the wake of the Mexican announcement, the MOF decided to tighten its guidance over overseas lending by Japanese banks. The MOF already exercised administrative guidance over lending abroad based on a formula that no bank's outstanding medium- and long-term loans to any single foreign country should exceed 20 percent of its own net worth. That guideline, in effect since October 1979, was strengthened by including short-term lending as well, and by limiting lending of all maturities to 30 percent of bank net worth. The change was prompted by Mexico's inclusion of short-term borrowings in its proposals for debt rescheduling.

In addition, auditing procedures were to be tightened so that domestic and foreign branches of Japanese banks would be audited simultaneously to prevent money being shifted to mask overloans.

As of the end of FY 1981, Japanese banks had $37 billion outstanding in short-term foreign-currency loans overseas, ¥70 billion ($281 million) in short-term yen-denominated overseas loans, and $53 billion in medium- and long-term overseas loans in either foreign or yen terms. This totaled $90 billion in overseas loans. Japan's share in international loans was also increasing, from 8.6 percent in 1980 to 9.4 percent in 1981 and 16.8 percent in January-March 1982. The MOF took this as a sign that Japanese banks were too slow to perceive the increase in default risk and increased their lending while banks of other countries began to withdraw.

In issuing these guidelines, the MOF avoided setting limits on total Japanese bank lending to individual countries. At the IMF meetings in Toronto, in fact, Finance Minister Watanabe defended private banking sector loans to developing countries, and this new policy was consistent with that view.

Even though guidelines on individual countries were not part of the new policy, Mexico was seen as the main danger. When the problem surfaced in September, Japanese banks held 22 percent of Mexico's outstanding debt to banking institutions in industrial countries, while U.S. banks held 44 percent. Apparently the average exposure of Japanese banks—measured by the ratio of outstanding loans to bank capital or net worth—was around 50 percent, and even higher for some banks. This exceeded the new 30 percent limit announced by the MOF. Because short-term debt had been excluded from the earlier limits, many banks apparently circumvented the restrictions by expanding the short end of their loan portfolios. As a result, a much higher 50 percent of Mexican short-term debt was held by Japanese banks.

Since none of the lending nations wanted Mexico to be forced to default on its loans, the incongruence between the administrative guidance levels and the volume of lendings caused some concern that Japanese banks would be asked to call in the loans as they matured and thereby deepen the crisis. Since the Japanese banks expanded their short-term debt portfolios, a disproportionate share of Japanese-held debt would fall due within the next twelve months. As a result, officials of the Ministry of Finance told the U.S. government that they had no intention of calling in the loans and that maturing loans would be rolled over.

Foreign Direct Investment During 1982, the Ministry of Finance published its statistics on direct foreign investment in FY 1981.

Despite higher investment costs due to the depreciation of the yen, foreign direct investment by Japanese companies spurted 89.8 percent to $8.9 billion, bringing the cumulative total to $45.4 billion. Ministry of Finance officials attributed much of this surge, which followed a dip in the previous fiscal year, to a large increase in loans from parent companies to their overseas affiliates—a financing pattern that reflected the lower cost of raising funds in Japan than in financial markets abroad. The start of several large resource-development projects also contributed to the greater outflow of investment funds in FY 1981, as did the need for an expanded onshore production base in the United States and Europe to counter mounting protectionist pressures and to maintain market share.

In a major break with the geographical pattern of Japanese foreign investment in FY 1979 and FY 1980, most of the record outflow of investment funds was channeled into developing countries. Companies in Japan put $3.3 billion into investments in other Asian countries, with $2.4 billion alone going into Indonesia, mainly for a new joint project to develop natural gas deposits in northern Sumatra. This strengthened Asia's position as the number-one overseas investment region for Japanese companies by pushing the cumulative total up to nearly $13.2 billion, or 29 percent of all foreign direct investment.

Latin America, particularly Brazil, also attracted a large influx of Japanese investment funds. Rebounding from the big FY 1980 drop, investments in this region advanced 10 percent to $1.2 billion, which brought the total up to $7.3 billion. The flow of investment funds into African countries also reversed direction, increasing 312 percent to almost $0.6 billion, for a cumulative total of $2 billion. In contrast, political instability in the Middle East curtailed the volume of new Japanese investment in that area, cutting it 39 percent to $0.1 billion. Through March 1982, though, Japanese companies had funneled more than $2.3 billion into this region.

Although firms in Japan tilted their overseas direct investments toward developing countries in FY 1981, the flow of funds into other industrialized countries was by no means stagnant. On the contrary, a record $2.5 billion was invested in the United States ($2.3 billion) and Canada ($0.2 billion), or 56 percent more than FY 1980's amount. With this advance, moreover, cumulative Japanese investment in North America reached $12.3 billion, or 27 percent of the total, and over $11.2 billion of this amount was invested in the U.S. affiliates of Japanese companies, which placed the United States well ahead of Indonesia ($6.9 billion) and Brazil ($3.2 billion) as the prime location abroad for Japanese corporate investors.

Direct investments in Europe rose as well in FY 1981, increasing 38 percent to $0.8 billion, although the amount of money going into the United Kingdom, the major European country for Japanese investors, contracted. By March 1982, consequently, almost $5.3 billion had been invested in the region, with fifth-ranked Britain accounting for $2.1 billion of this amount. On the other hand, the outflow of funds to Australia and New Zealand fell in FY 1981 for the second year in a row, this time by 8 percent to $0.4 billion. Still, Japanese corporate investors had a $2.7-billion stake in the two countries by the end of March, including holdings worth $2.5 billion in Australia.

In another major departure from the investment pattern of recent years, Japanese foreign direct investors earmarked the largest share of their funds in FY 1981 for mining projects rather than for manufacturing activities. In fact, overseas mining investments, inflated by the start of the Indonesian natural gas project, soared 348 percent to $2.5 billion. In the process, Japan's cumulative investments in mining increased to $9.6 billion, with well over half of these funds invested in Indonesia and other Asian countries. Still, the cumulative amount of money that had been channeled into mining projects continued to lag significantly behind investments in manufacturing facilities abroad. Helped by a 34 percent expansion in FY 1981 to $2.3 billion, foreign manufacturing investments were valued at almost $24.9 billion at the end of March, of which nearly $5.3 billion was in Asia, $3.4 billion in North America and $3 billion in Latin America.

The Japanese also invested heavily in their overseas sales affiliates during the April 1981-March 1982 period, adding $1.2 billion, or 47 percent more than in FY 1980, for a cumulative investment of $6.6 billion. In this sector, the United States and Canada were the dominant areas of investment, accounting for over three-fifths of the total. Foreign investment activity was also brisk in the finance and insurance sector; here, Japanese firms upped their investments by $0.8 billion to $3.3 billion, with three-forths of this amount in North America and Europe.

Plant Exports As an element of Japan's foreign policy goals of bolstering the stability of resource-supplying developing countries and of lessening trade problems with industrialized nations, the Japanese government has promoted the notion of plant exports. While the term conjures up the image of construction of turn-key industrial plants overseas (with or without any equity position by the Japanese), in statistical terms, it includes all industrial machinery exports of a contract size of $500,000 or more. Given the competition among industrial-nation firms to obtain contracts for major industrial construction projects around the world, though, it is far from clear that promoting plant exports was necessarily a way to avoid trade friction.

Data released during the year by the Ministry of International Trade and Industry (MITI) show Japan's industrial plant exports increased sharply in FY 1981 to $17.5 billion, a 48.0 percent jump over the previous year, and accounted for 11.5 percent of total exports. By region, the data show Southeast Asian countries were the destination of $5.7 billion worth of Japanese industrial plant exports (up 55 percent), the Middle East $4.8 billion (up 64 percent), North America and Europe $1.4 billion (up 42 percent), Latin America $1.5 billion (up 27 percent), Africa $1.7 billion (down 11 percent), Oceania $0.7 billion (up 14 percent) and the Communist countries $1.7 billion (up 20 percent). By category, the largest gains occurred in oil refinery equipment, which rose 146 percent, petrochemical manufacturing machinery, which showed a 10 percent increase, and electrical machinery, which grew 87 percent.

The announcement cited the following principal reasons for the surge in demand after a weak showing in fiscal 1980:

- Worldwide demand responded to the anticipation that the recession had bottomed out.
- Perceptions of country risk declined.
- Purchasing power in industrial and oil-importing countries recovered as a result of stable crude oil prices.
- Energy investments in oil refineries and electric power plants rose.
- Investments were accelerated to take advantage of low interest rates before the revisions agreed to under the OECD export credit guidelines (Part III) were to go into effect.
- Japanese price competitiveness in oil refineries and petrochemical plants increased.

A number of projects which Japan had counted on, though, failed to materialize due to the persistent weakness in construction demand, foreign-exchange risks, or special factors involving political difficulties or government economic aid.

The outlook for FY 1982 was not as promising, however. A number of countries which might be expected to increase their industrial plant imports faced international political problems, the OECD-mandated rise in interest rates, and resistance to extension of export credit. A MITI committee meeting to discuss industrial plant exports noted that attention should be paid to such areas as foreign-exchange risk, implementation of consulting and engineering projects, and promotion of resource development. For Japan to continue to be successful in this area, it recommended the establishment of an evaluation system on country risk, the expansion of yen credits, a greater awareness of developing country needs, an international plant export consortia and the expansion of government export credits.

Foreign Aid

In recent years, the Japanese government has stressed increases in foreign aid as a way of meeting its responsibilities for global stability as a major industrial nation. While Japan faltered in the increase of its aid in 1981, the most recent year for which data are available, the philosophy remained unchanged.

ODA Figures Japan's net disbursements of official development assistance (ODA) in 1981 amounted to $3.2 billion, a 4.1-percent decrease over the previous year's $3.3 billion. ODA as a percentage of the gross national product dipped for the first time since 1976, down 0.04 percentage points from 0.32 percent to 0.28 percent.

The breakdown for foreign assistance shows bilateral ODA at $2.3 billion, a 15.2 percent increase over 1980's $2 billion, elevated by a 24 percent increase in grants and a 10.9 percent increase in loans, as well as a rise in rice donations of $100 million over the previous year. Concurrently, multilateral aid was $909 million, a 32 percent decrease over year-earlier levels, with grants of $256 million, a 2 percent decrease over 1980's $261 million. Capital contributions to international financial institutions, including the World Bank, the International Development Association (IDA) and the

Asian Development Bank slowed to $659 million, down 40 percent over the previous year's $1.1 billion.

On balance, despite the considerable increase in bilateral assistance, the year saw a contraction of ODA, most of which came as a result of the drop in Japan's capital payments and contributions to international financial institutions. Though the official explanation from the Ministry of Foreign Affairs pointed out that capital subscriptions and contributions vary from year to year, and 1981 happened to be one of the low-level years, in fact, the United States' decision to shift its emphasis from multilateral to bilateral assistance was a significant factor in the decline because Japan routinely tied its contribution to U.S. decisions. For example, Japan's contribution to the IDA's sixth replenishment was held up because of the delay in the U.S. replenishment payment, and ultimately was reduced by about $150 million. Moreover, the developed nations failed to reach agreement on financing programs for the regional development banks.

White Paper The annual white paper on foreign aid, issued by MITI, emphasized the need to help the non-oil developing countries both by teaching management techniques and through technological transfers. The report said that Japan should direct its economic aid toward measures which would improve the developing countries' productivity, expand employment and increase income. It also stated that Japan should also pay close attention to the long-term and diverse needs of individual developing countries.

MITI also presented the proposition that the Japanese private sector should become more involved in the developing countries through direct investment. The white paper emphasized that the private sector's involvement in economic aid in this manner would enable Japan's relationship with these countries to become stronger and more interdependent as Japan secured more energy and other resources from them. MITI also planned to improve its existing method of assessing each aid program by looking at the financial and technological impact of projects not only in the recipient country but also in the region.

Foreign Ministry Review Besides the annual MITI white paper, the Ministry of Foreign Affairs conducted for the first time its own evaluation of Japan's foreign economic assistance program and generally awarded it high marks. In the case of programs to some of the poorest countries, such as Bangladesh and Nepal, however, it recommended some "self reflection", since the aid provided evidently did not complement the technical capacities or local manners and customs of the recipient countries. Of the 99 cases under review, the ministry concluded that the results achieved in transportation facilities, communication improvements, medical and educational facilities were effective in enhancing the economies of the targeted countries.

Not long after Tokyo embarked on its plan to double funds for ODA during the 1981-1985 period, the Foreign Ministry undertook an evaluation to determine whether the aid was achieving the desired results. This first report was based on field surveys undertaken by officials in the various recipient countries. The surveys covered 20 countries, including Thailand, Malaysia, Indonesia, Bangladesh, Egypt and Mexico, and included 22 yen-funded projects, 26 grant programs, and 38 projects involving technological cooperation. The report showed good progress in a communications training center in Thailand and a hospital in Sri Lanka, but faulted Tokyo for insufficient knowledge of conditions in the poorest countries, which would have improved the quality of assistance to more adequately meet the recipient's actual needs.

Problems with the EC

At the same time that Japan's problems with the United States were worsening, economic relations with the EC deteriorated as well. In the early part of the year this continued at the level of commission discussions, which had not in the past progressed to the point of action. But in 1982 the EC finally went so far as to initiate a sweeping GATT Article 23 case against Japan.

Rising Dissatisfaction Beginning in 1981, the EC Commission (the permanent secretariat of the EC) had been preparing plans that would establish EC-wide policies on imports from Japan to replace the profusion of restrictions with their varying degrees of severity imposed by individual members. Yet another proposal was drafted by the Commission for consideration at the regular meeting of the Council (of EC foreign ministers) on February 23, 1982.

The new proposal had three parts that continued in the same vein as others voiced in the past. First, there was a threat on the basis of GATT Article 23 to bring action against Japan before the GATT for maintaining a closed market (discussed in detail below). Second, the Commission again proposed to seek EC-wide import restraints, and if Japan were agreeable, then to dismantle the individual country restrictions. Third, the proposal reiterated the EC's willingness to promote better bilateral relations through expanded cooperation on technology exchange. These three themes characterized EC pressure over the rest of the year.

Remarks by Mr. Arthur Dunkel, Director General of GATT, also added to the critical tone of the dispute. On February 17, he called on Japan to undertake radical measures to liberalize access to its markets in comments made to the Japanese representatives attending a meeting of the GATT's Consultative Group of 18 in Geneva. Since the past upholder of liberal trade—the United States—was suffering from recession, he said, it was incumbent on Japan to take the lead in maintaining the liberal trade system. In addition to continuing such action as the recently announced tariff cuts and action on nontariff barriers, he also called for Japan to eliminate its 27 remaining quotas.

LDP Mission Following a trip to Washington in February (see Part VI), Masumi Esaki, the LDP international trade committee chairman, visited Europe. The theme of discussion with leaders of the European Community countries was again Japan's trade imbalance. The EC leaders warned Mr. Esaki that unless Japan were to take significant action to improve the situation, certain member countries might close their markets to Japanese exports "within six months." It was widely believed that the reference was to France. However, the French trade minister, who was visiting Tokyo, denied that his government would take further restrictive measures.

The President of the EC Commission, Gaston Thorn, told the Japanese delegation that even though the members were committed to free trade, actual policies were voted by individual governments, which meant an em-

phasis on national interests. The EC Commission reiterated its earlier position, presenting a three-point request: further access to the Japanese market, export restraint for products competing with European industries that were undergoing industrial reform, and access to the Japanese financial market on the same terms offered by the European securities market. Meanwhile, trade consultations continued between French and Japanese officials in Tokyo, ranging over French exports of mineral water, blood serum, processed cheese, wheat flour and brandy.

GATT Action Not satisfied with action by the Japanese, the EC finally went ahead on March 7 with its threatened GATT action under Article 23, charging broad denial of GATT rights due to Japanese trade, industrial and social policies. In response, the Japanese government said it welcomed the opportunity to meet with the EC about restrictions that have been imposed by European countries against Japanese imports.

In its petition, the EC cited the low level of imports of manufactured products by Japan as the major cause of the current trade imbalance. Article 23 stipulates the following procedure:

If any contracting party should consider that any benefit accruing to it directly or indirectly under this Agreement is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded as the result of (a) the failure of another contracting party to carry out its obligations under this Agreement, or (b) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this Agreement, or (c) the existence of any other situation, the contracting party may, with a view to the satisfactory adjustment of the matter, make written representations or proposals to the other contracting party or parties which it considers to be concerned. Any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it.

If no satisfactory adjustment is effected between concerned countries within a reasonable time, the matter may be referred to the GATT. An arbitration panel then recommends a solution, or an equivalent exemption of obligations is allowed. Under (a) of Article 23 (I), this is a prima facie case. In (b) and (c), damage must be shown.

The EC claimed Japan should take steps according to (b) of Article 23 in regard to testing procedures, product standards and customs-clearance procedures and (c) to modify the influence of industry groups which impede foreign penetration of the market. Additionally, EC officials pointed at the close relationship between the government and the business community as detrimental to a fair trade policy. The request urged Japan to increase the ratio of manufactured imports to the level of other industrialized countries within a reasonable period of time and to provide assurance that they would pursue moderate exports of automobiles, color television sets and some types of machine tools.

In its position paper, the Ministry of International Trade and Industry outlined its own offense: first, Japan was anxious to maintain and strengthen the free-trade system under the GATT agreements; second, Japan sought an elimination of import restrictions by EC countries explicitly contrary to GATT regulations; third, it was important that the consulations be constructive rather than abstract; and fourth, Japan intended to confront the EC on the question of whether Japan's trade policies violate GATT rules.

No resolution to the case came in 1982, but it represented a step that the United States had not taken and further increased international pressure on Japan. By the end of 1982, the EC also appeared ready to move forward with negotiations on EC-wide restrictions on certain products, but these did not materialize until January 1983.

Relations with the Soviet Union

During 1982, Japan's relations with the Soviet Union continued to be strained, as Japan joined in economic actions in response to the Polish crisis. Even Japan, though, protested later in the year when the Reagan administration followed an even tougher line on technology control. Japan, as other nations, remained torn between the commitment to show collective resistence to Soviet aggression and the desire of the business community to maintain or expand commercial relations. For Japan, 1982 was a year in which the anxiety over Soviet aggression and the Soviet military posture in the Pacific were growing and gaining ascendancy over commercial concerns.

Sanctions Imposed Following the outbreak of widespread labor unrest in Poland leading to the imposition of martial law and breakup of the labor union Solidarity, the United States swiftly embarked on a policy of strong protest and sanctions against the Soviet Union to deter any overt Soviet interference in Poland. At that time, a Soviet military occupation seemed quite likely.

Japan moved cautiously at first toward the imposition of specific economic sanctions against the Soviet Union in response to the crisis. On January 14, Foreign Minister Sakurauchi announced that Japan would first consult with other members of the Western alliance. The foreign minister listed political, economic, science and technology, and cultural exchanges as potentially subject to sanctions.

Before new policies were decided, Japan and the Soviet Union faced bilateral discussions. Despite 14-hour sessions on January 21 and 22, Japanese and Russian foreign ministry officials meeting in Moscow reached no solution or compromise on any issue they discussed, although both found the talks a useful starting point and said they intended to continue the dialogue. A senior Japanese Foreign Ministry official dismissed the possibility that the Soviet approach illustrated its intention to cut off the United States from Europe and Japan and contended that the foreign ministry-level talks would not be undermined by such maneuvers.

According to the Japanese Foreign Ministry the talks in Moscow were frank, even though in many cases the two sides differed sharply from one another. According to the Soviets, the United States was responsible for East-West tensions. Japanese officials refuted this allegation, pointing out that while American military expenditures in the 1970s were flat, the Soviet military budget increased by 4 to 5 percent a year. The failure of the SALT-II treaty to achieve ratification by the U.S. Congress was seen by Japan as an American reaction to the Afghanistan crisis. For its part, the Soviets criticized Japan's close defense relationship with the United States, citing the budget increase for defense, the financial assistance earmarked for American bases in Japan and the rising number of joint exercises. Pointing out that these activities fell under the

framework of the U.S.-Japan Security Treaty and were in line with the United Nations Charter, officials stressed that the mutual nature of its defense posture was legitimate.

That the meetings between Japan and the Soviet Union were strained was no surprise given Japan's decision shortly thereafter on new sanctions. After consideration of U.S. and other Western nation actions, the Japanese government announced on February 23 the imposition of further economic sanctions against the Soviet Union. At the same time, Japan also announced sanctions against Poland.

The actions taken against the Soviet Union included the suspension of science and technology talks, and trade talks, the refusal to discuss with the Soviet Union the expansion of its Tokyo trade office and a cautious approach on granting extended stays to a Soviet trade delegation. Measures enacted against Poland included the suspension of negotiations on deferred payment of official loans, the suspension of new supplies of official credit and restrictions on the movement of Polish diplomats in Japan. However, the Japanese government decided to continue humanitarian aid and economic commitments that originated before the new crisis.

Technology Flap Sanctions took a new twist over the summer, however, as the Reagan administration pressed its position that sales to the Soviet Union by U.S.-affiliated overseas companies of products using technology licensed from the United States could also be embargoed by the United States. As a result of the new policy, both Europe and Japan found it difficult to continue large-scale energy projects then underway in the Soviet Union.

Japan's oil and natural-gas projects centered in Sakhalin, an island north of Hokkaido. In 1972, Japan and the Soviet Union agreed to undertake joint exploration and development of the region's oil and natural-gas resources. By 1982 the Japan National Oil Corporation, a government-affiliated body assisting with overseas energy development, and the private sector had already invested about ¥60 billion ($241 million). Feasibility studies indicated oil reserves of up to 90 million tons and natural-gas reserves of 120 billion cubic meters, with shipments to Japan expected by 1986 of half-a-million tons of oil per year, and five billion cubic meters of gas by 1988. Although relations with the Soviet Union were strained, the project had been the only bright spot in the picture, and its cessation had implications for bilateral foreign policy as well.

American technology was apparently crucial at this stage, since a multinational company, Schlumberger Ltd., was the source of American technology for geological exploration and drilling equipment, for which Japan was paying up to $2 million annually. Without the technology licenses, exploration was expected to be halted indefinitely.

The European Community, which suffered a serious setback in its own natural-gas pipeline project, led the attack on the Reagan announcement and demanded that the American government consider a policy reversal. Japan joined with a similar demand. President Reagan, however, in a letter to Prime Minister Suzuki stressed that the decision was final. A further worry for Japan was the possibility that the Soviet Union, which had been irritated by Japan's imposition of economic sanctions might declare a breach of contract and proceed by itself.

The Japanese government, which had hoped for special consideration from President Reagan, saw its hopes dashed during the Versailles summit. Heated debates over sanctions against the Soviet Union illustrated the strong ideological and policy differences between the American and European-Japanese positions. The bottom line was whether sanctions would be effective and whether economic strategies could be used against the U.S.S.R. as the basis for peaceful coexistence.

On November 13, President Reagan finally lifted the controversial sanction, ending this problem for Japan. Japanese business was relieved but uncertain as to what future restrictions would result from the mandated review of the COCOM list and the new limits on financing of Soviet purchases emerging out of the compromise reached in ending the licensed technology sanction. The Japan Export-Import Bank was already committed to lending half of the development cost ($5 billion) of the Sakhalin natural-gas project, but negotiations on interest rates had not been completed. The Export-Import Bank was pushing for the OECD rate, while the Soviet Union was demanding the lower rate that the bank normally applied to natural-resource development projects.

Even though the lifting of the sanction opened the way for some improvement in Japan's relations with the Soviet Union, there was little material change in the rest of the year. Other developments, including the indications of stepped up Soviet interest in Asia, and attempts at rapprochment with China (discussed below) all kept the Japanese government wary of the Soviet Union.

Relations with China

Early in 1982, the newly appointed Chinese ambassador to Tokyo, Mr. Sung Chih Kung, discussed the Sino-Japanese relationship at a press conference in Peking. Mr. Sung, who had studied briefly in Japan before the Sino-Japanese War (1937-1945) broke out, said he was confident that the bilateral relationship was better in 1982 than ever before in its 2,000-year history.

The ambassador's announcement of his plans to promote further exchanges in the area of defense received considerable attention in the Japanese press. Ambassador Sung stated that when compared to the level of exchanges of American and European senior defense officials, the Sino-Japanese exchange of military personnel was too low. He responded to questions by the Japanese press on whether the expanded defense exchanges would include imports of Japanese defense technology by stating that such imports were not being discussed.

Japanese government officials in Tokyo also emphasized that Ambassador Sung's plan to expand the bilateral military exchange was confined to personnel exchanges, pointing out that when late Prime Minister Yoshio Ohira visited Peking in 1979, both governments agreed that bilateral cooperation did not include exchange of defense technology.

While this suggested that Sino-Japanese relations might be improving, the textbook scandal in August caused serious problems, potentially affecting Japan's security posture in the Pacific area as other Asian countries joined in the criticism of Japan. The incident began when the Ministry of Education decided to neutralize references to Japanese military behavior in Asia in several textbooks, which sparked wide press coverage and bitter reactions from Chinese, Koreans and Southeast Asians—all critical of Japan's insensitivity to this issue. Press coverage con-

centrated heavily on criticism of the ministry, although some Cabinet members supported the new interpretation. Eventually, the situation was somewhat improved when the government agreed to reconsider the textbook inspection procedure but the incident nevertheless left its mark.

The impact was evident in a September 1 speech by the chairman of the Chinese Communist Party at the twelfth party convention. For the first time in ten years, the chairman referred to the dangers of revived Japanese militarism. Foreign Ministry officials felt that the statement reflected official anger at the textbook issue, even though the speech took pains to separate the public's friendship toward China from the pro-military minority. But the fact that the bilateral relationship could so easily be disrupted served as a reminder that the past was not easily forgotten.

Just as Japan seemed to be having problems with China, the Japanese became worried over early signs of Soviet overtures, evident from talks between Chinese and Russian officials in Peking. While the Chinese made it clear that no improvement of the relationship was likely unless the Russians withdrew their troops from border locations, it was obvious that both sides felt the time was ripe to resume communications and at least make some headway in the two countries' trade relations. In September the Soviet government established a new department specializing in trade with China via a government trade corporation that had been handling trade between Siberia and the Japanese coastal prefectures which exported consumer goods to that area. The Soviets, according to press reports, were planning to ship lumber and industrial parts needed to repair Soviet-built factories dating from the 1950s, while China would ship food, textiles and consumer goods that were in short supply in Siberia. These moves were very worrisome to Japanese government officials.

Part V
The U.S. Economy

Economic Overview

The American economy continued in recession through 1982. By the end of the year, unemployment was at record levels and capital spending was continuing to decline. The poor state of the economy also created a drop in real exports that, along with political problems resulting from high unemployment, accentuated trade friction with Japan. At yearend, however, a mild recovery was in sight as the index of leading economic indicators rose in seven of the last eight months. The inflation rate also fell to its lowest rate in ten years and interest rates by midsummer were beginning to decline to their lowest level in more than two years. This enabled expenditures for interest-sensitive goods such as housing and consumer durables to register improvements.

GNP Growth

Preliminary data show that real GNP in the United States fell 1.7 percent for all of 1982. The year began badly with a drop in real (inflation-adjusted) GNP at an annualized rate of 5.1 percent for the first quarter. Growth then began to pick up, registering a 2.1-percent increase in the second quarter and a 0.7-percent increase in the third quarter. The growth rate fell again in the fourth quarter, however, with a 1.1 percent decline.

By Sector Sectoral activity in 1982 was varied but tended to be depressed. Personal comsumption showed an inflation-adjusted 1.0-percent increase for the year, with growth in nondurable goods and services but a decline in durable goods of 0.9 percent. Investment in residential housing continued to decline, falling by 10.2 percent in 1982 compared to a 4.8-percent decline in 1981 and an 18.4-percent decline in 1980. Private nonresidential investment also fell by 3.6 percent, after a similar sized rise in 1981. Government spending was up 1.4 percent for the year with federal spending increasing 5.4 percent (6.9 percent in defense and 2.5 percent in nondefense areas), and local and state spending declining by 1.0 percent. Net exports of goods and services fell dramatically in 1982 registering a 24.3 percent decline, the result of a 6.5 percent decline in exports coupled with a close to zero change in imports.

Comparison to Japan The United States once again was outperformed by Japan, where GNP growth was positive (3.0 percent). By the end of the year, though, most observers were predicting the end of recession in the United States, while the economic conditions in Japan seemed to be slowly deteriorating.

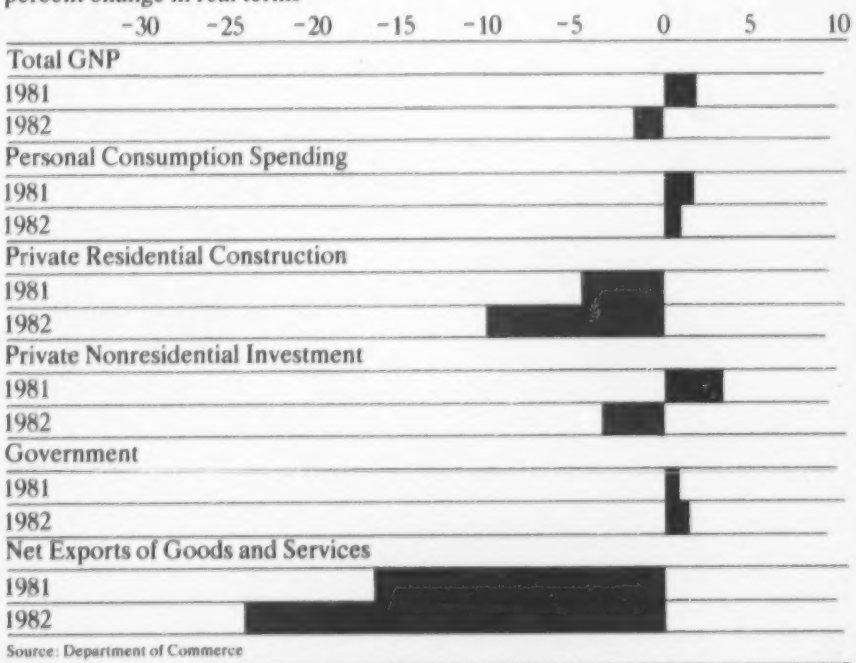
On a sectoral basis, there were certain similarities between the two countries. Both countries continued to experience real drops in private residential construction, but for 1982 the decline was much larger in the United States than in Japan (where it was only down 0.1 percent). Government was also rather constrained in both countries, with the 2.1 percent gain in Japan only slightly outdistancing the United States.

Differences included a much stronger real gain in consumer spending in Japan (4.2 percent) than in the United States. The major differences in performance, though, came from private nonresidential investment and the external sector. Whereas the United States suffered from a decline in private nonresidential investment, Japan eked out a 1.9 percent increase. In the external sector, the United States paid dearly for its domestic policies causing a strong dollar with its large drop in net exports, while Japan had a modest 3.7 percent gain.

Other Economic Developments

The unemployment rate was another grim aspect of 1982, hitting record levels and averaging 9.6 percent for the

U.S. GNP by Sector



Source: Department of Commerce

year. As the recession deepened, unemployment rose at a steady pace from 8.4 percent in January to 10.7 percent in December. Long-term unemployment (15 weeks and over) was up nearly 53 percent over its 1981 level. Unemployment struck some groups harder than others, registering its highest levels for teenagers (23.2 percent), minorities (17.3 percent) and female heads of households (11.7 percent). The number of employed workers (including resident military) remained steady early in the year falling in the last quarter to end at 101 million. Total civilian employment in December was 99 million.

The Labor Department estimated that productivity (output per hour of all persons) in the U.S. nonfarm business sector rose only 0.1 percent in 1982, below the 1.4 percent level obtained in 1981. The productivity story by quarter, however, revealed very low growth rates of 0.6 percent and 0.8 percent in the first and second quarters with higher growth rates of 3.5 percent and 2.0 percent in the third and fourth quarters.

Inflation was the one bright spot in the economic picture, as it continued to decline in 1982. The consumer price index (CPI) for all workers showed only a 6.1-percent increase, compared to hikes of 10.4 percent in 1981 and 13.5 percent in 1980. By category, the record was varied, with prices for food up 4 percent, housing up 7.2 percent, medical care up 11.6 percent and energy up only 1.5 percent. The fall in the price of oil contributed to the lower inflation rate, as did continued tight monetary policy, but the cost of tight monetary policy was high.

Industrial production was falling throughout 1982, with the downturn slowing after August. The 8.7-percent decline contrasted with a 2.7-percent increase in 1981. Mining led the decline with an 11.2-percent drop followed closely by an 8.5-percent drop in the manufacturing sector. Within manufacturing, consumer durables were hardest hit, down 11.2 percent. This included decreases in motor vehicles and parts (10.2 percent), nonelectrical machinery (13 percent) and primary metals (30.3 percent). Nondurable manufacturers were hit less hard, down 5.2 percent.

Monetary Policy

Interest Rates Down Interest rates stayed high during the first half of 1982 but then began a major decline during the summer to their lowest levels in more than two years partially due to lower inflationary expectations and continued weakness in the economy. The prime rate charged by commercial banks peaked early in the year in February at 14.27 percent. It remained above 13 percent into July before falling to 8.50 percent by December. As usually happens, other major interest rates followed this trend. Three-month Treasury bills began the year at 12.4 percent, fell to 11.9 percent in July, then ended the year at 8 percent. Six-month Treasury bills started at 12.9 percent, fell to 12.2 percent in July and ended at 11.5 percent. Top quality commercial bonds also hit their high in January at 13.2 percent, then wavered in the 11 to 12.7 percent range through August, before dropping at the end of the year to 9.9 percent.

A tight monetary policy was continued from 1981 into the first half of 1982 as the Federal Reserve attempted to further curb inflation. It succeeded in bringing the inflation rate to 6.1 percent from the 1981 level of 10.4 percent, but not without having a serious negative impact on the economy. The result was a continuation of the recession begun in mid-1981. Trade was also affected as high interest rates made capital movement into the United States attractive resulting in a strong dollar. Therefore, not only were the interest-sensitive sectors of the economy in recession, but also the export and import-competing sectors.

After mid-year, continued weakness in the economy, lower inflationary expectations, and a looser monetary policy helped create the drop in interest rates and especially short-term interest rates. This drop by the end of the year contributed to a slight upturn in the economy that was hoped would signal a moderate economic recovery in 1983.

Comparison to Japan As detailed in Part III and Part IV, U.S. monetary policy was a problem for Japan. Because of the wide disparity in policy and the adverse effects of high U.S. interest rates, Japan joined in the chorus of complaints leveled at the United States during the year.

Japan had moved to loosen its own monetary policy in 1981, creating a gap in interest rates between itself and the United States that resulted in capital outflow and downward pressure on the yen. Faced with the fear of generating further yen depreciation (and thereby further foreign criticism of Japanese exports), Japanese monetary policy was not eased any farther in 1982. Domestic pressures to stimulate the economy, on the other hand, similarly prevented any major tightening to aid the yen. Since U.S. interest rates declined so much after July, the divergence between the stance of monetary policy was very much lessened by the end of the year.

Fiscal Policy

Deficit Concerns The Federal budget deficit became a major concern in 1982 as it skyrocketed to a record $110.6 billion in FY 1982 (double that in FY 1981) and it was expected to increase to at least $207.7 billion in FY 1983. The deficit soared despite both the Reagan administration's determination to hold it down and substantial cuts in federal programs primarily because the recession failed to bottom out as predicted by the second half of 1982. Higher unemployment, lower economic growth and high real interest rates as well as budget increases for defense and entitlements took their toll.

The administration's fiscal policy continued to hold to its two tenets of cutting both government spending and taxes. While there were cuts in many government programs, they were offset by the increased costs of the recession in terms of both outlays and receipts. Similarly, the income tax cut for individuals and corporations was more than offset by tax increases under the Tax Equity and Fiscal Responsibility Act.

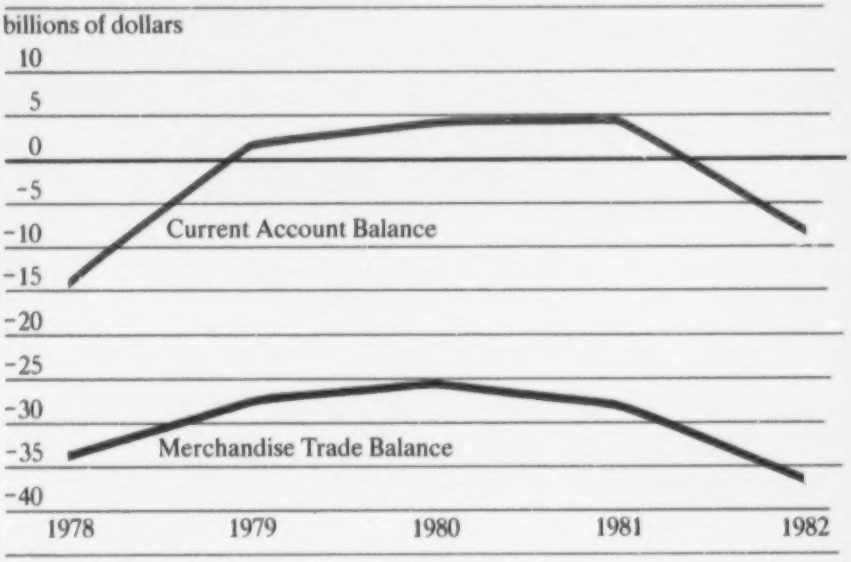
Comparison to Japan In Japan, too, cutting the deficit was a major priority of the year, and it was achieving only slightly greater success. The ratio of current deficit to total government expenditures was much higher in Japan, and the FY 1982 and FY 1983 budgets showed a strong attempt to hold down increases in discretionary spending. Unlike the Reagan administration however, the Japanese government avoided any reduction in income taxes.

Despite these efforts, the dampening effect of slow economic growth on tax receipts caused Japan to end up with wider government deficits than had been predicted. By the end of the year, Japan seemed no more likely to achieve its goals on cutting the deficit than would the United States.

A major difference between the two countries was the economic environ-

ment for fiscal policy. Japan faced slow growth, low inflation, and domestic savings in excess of domestic investment demands, implying both the advisability of following a more expansionary fiscal policy and the lack of any problem from generating inflation or "crowding out" private investment in capital markets. Thus, while Japanese fiscal policy may have looked very expansionary because of the large deficits, many argued that it could have been eased further. Some economists suggested that bilateral relations would have been improved if Japan had tightened up somewhat on monetary policy to defend the yen and had further loosened fiscal policy while the United States did the opposite.

U.S. Balance of Payments



Source: Department of Commerce

Trade and Payments Data

Balance of Payments Data

Merchandise Trade U.S. balance of payments accounts are not organized in the same manner as in Japan but some useful comparison can still be made. In preliminary figures on merchandise trade (measured f.o.b.), the United States had a $36.3 billion deficit in 1982, up $8.4 billion from the $27.9 billion deficit in 1981. This contrasted with Japan's 1982 trade surplus of just over $18 billion, leading to continued political concern in the United States over the two countries' relative world trade positions.

The differences in the size of the merchandise trade deficit between the first and second halves of the year reveals the sharp deterioration in the U.S. position. The deficit stood at $5.9 billion in the first quarter and $5.8 billion in the second quarter. It then widened dramatically to $12.5 billion in the third quarter and $12.1 billion in the fourth quarter. The increased deficit represented a steeper decrease in exports than in imports, a result of the world recession and the appreciation of the dollar. Further detail on merchandise trade is provided below in the section on census trade data, which are measured on an f.a.s. basis.

Service and Transfers The United States recorded a surplus of $36.1 billion on services trade in 1982, down 7.3 percent from 1981's level of $39 billion. The United States in recent years has consistently run a surplus in services trade and steadily increased its size. The contraction in 1982 was contrary to this trend primarily because of a decrease in income receipts on U.S. foreign direct investment.

The largest component of the surplus came from a $2.4 billion jump to $24.5 billion in 1982 in other U.S. net private receipts. Receipts from U.S. direct investment abroad declined from $24.1 billion in 1981 to $18.1 billion in 1982, continuing the declines begun in 1980 after the second oil crisis. Net fees and royalties increased slightly from $6.6 billion in 1981 to $6.8 in 1982 while transportation receipts decreased.

The U.S. deficit on unilateral transfers (foreign aid other than military grants) rose from $6.6 billion in 1981 to $7.9 billion in 1982, attributable mainly to a substantial increase in foreign economic assistance.

Current Account Merchandise trade, services and unilateral transfers added up to a current-account deficit of just under $8.1 billion in 1982. The deficit followed surpluses of $4.5 billion in 1981 and $3.7 billion in 1980. It contrasted with Japan's 1982 current-account surplus of $6.8 billion. The current account remained in surplus during the first half of the year, reaching $1 billion in the first quarter and recording its high for the year at $2.2 billion in the second quarter. As the merchandise trade deficit worsened, it fell into deficit in the third quarter ($5.2 billion) and then continued its slide in the fourth quarter, reaching $6.1 billion.

Capital Flows and Overall Balance Beyond the current account, the U.S. balance of payments data is not organized into easily understood categories. This prevents comparisons with Japan except for a few items. Direct investment amounted to a net inflow of $11.6 billion, compared to a net inflow of $11.7 billion in 1981. This compares to outflows in Japan of $4.5 billion in 1981 and $4.1 billion in 1982. U.S. balance of payments statistics do not separate other capital transactions into long-term assets, short-term assets and currency holdings. Taken together, these items resulted in a net capital and currency outflow of $31.4 billion in 1981 and $33.8 billion in 1982. These were partly offset by statistical discrepancies of $25.8 billion and $41.9 billion, respectively.

Census Trade Data

The overall U.S. merchandise trade deficit (measured on an f.a.s. basis as opposed to the f.o.b. basis in the balance of payments) expanded in 1982, increasing by $4.5 billion to a record $31.8 billion. This followed another near record deficit of $27.3 billion in 1981.

Exports fell 9.2 percent in 1982 to $212.2 billion, the first decline in over

twenty years and an indication of the depth of the economic downturn. Exports continued to be curbed not only by the world recession but also as a side effect of domestic economic policies (i.e., high interest rates) that strengthened the dollar, thereby hurting U.S. exports by making them more expensive. By month, exports began the year in January at $18.7 billion, wavered until peaking in June at $18.8 billion then fell to their low of $15.7 billion in November before registering a slight upturn in December.

U.S. imports also contracted in 1982, reaching only $243.9 billion, a decline of 6.5 percent. This contrasts with import levels of $261.0 billion in 1981 and $244.9 billion in 1980. The unfavorable economic conditions in the U.S. were primarily responsible for the decline and, importantly, helped counteract the effect of the strong dollar that meant foreign goods were price competitive. Another factor in the import decline was the fall in oil prices. By month, import levels varied greatly throughout the year starting in January at $22.8 billion and ending in December at $18.9 billion. They peaked in July at $23.5 billion and hit their lowest level in April at $17.4 billion.

Trade by Country The $4.5-billion jump in the overall trade deficit in 1982 was primarily the result of a 236-percent increase in the deficit with the developed countries which more than offset a large drop in the deficit vis-a-vis the Organization of Oil Exporting Countries (OPEC). The U.S. trade account with the developed countries plunged further into deficit as 1981's $5.7-percent deficit grew to $19-billion in 1982. Imports from these countries held even, increasing only 0.06 percent, but exports fell 9.8 percent to $122.5 billion. The U.S. trade account with the non-OPEC developing countries also fell into deficit, moving from a $538-million surplus in 1981 to a nearly $8-billion deficit. These two declines along with a contraction in the surplus with the non-market economies, which slipped from $4.5 billion to $3.2 billion, resulted in the record deficit. The only area in which the trade deficit was reduced was with OPEC where 1981's deficit of $27.9 billion shrank to only $8.3 billion in 1982 due to a small increase in exports and a 36.9-percent drop in imports, primarily oil.

The bilateral trade deficit with Japan increased only 6.3 percent to $16.8 billion, a marked contrast to the 59.6-percent increase in 1981. Even though the U.S.-Japan trade imbalance showed little change, despite the potential for a serious widening due to the dollar's strength, it still constituted the largest red-ink entry every recorded with a single trading partner. The increase was the net outcome of flat imports and a 3.9-percent decrease (about $1 billion) in exports. This is considered in greater detail in Part VI.

The jump in the bilateral trade deficit with Canada and the contraction in the surplus with the European Community were major components of the deterioration in the overall U.S. trade account. The deficit with Canada widened in 1982 by $5.9 to $12.8 billion, almost doubling in size. Although imports remained flat, exports fell 14.8 percent to $33.7 billion. As in 1981, the traditional U.S. surplus in trade with the European Community fell in 1982. From 1981's $10.7-billion (down from $17.6 billion in 1980), the trade surplus shrank to $5.4 billion. As in the case of trade with Canada, imports from the European Community increased only slightly, 2.1 percent to $52.5 billion, while exports decreased 8.5 percent to $47.9 billion.

As in 1981, the substantial reduction in the U.S. trade deficit with the developing countries in 1982 reflected a decline in imports from OPEC members. The U.S. trade deficit with the oil producers has declined from a high of $37.6 billion in 1980 to $27.9 billion in 1981 and finally to only $8.3 billion in 1982. The 1982 figure is the result of a 6.2-percent increase in exports to $22.9 billion and a 36.8 percent decrease in imports to $31.2 billion. The negative balance of $7.7 billion in 1981 with Saudi Arabia became a $1.6-billion surplus in 1982, while the balance with Venezuela went from a negative $121 million to a surplus of $438 million. In addition, trade deficits with the other major oil suppliers, Nigeria, Indonesia and Libya, all decreased.

The United States moved into the red in its trade with non-OPEC developing countries, dropping from a $538-million surplus in 1981 to an $8-billion deficit in 1982. U.S. imports from these nations rose 1.3 percent to $67.8 billion while U.S. exports fell 11.3 percent to $59.8 billion. The favorable balance in 1981 of $4 billion with Mexico turned into a deficit of $3.8 billion as exports dropped 33.6 percent to $11.8 billion and imports rose 13 percent to $15.6 billion. The U.S. deficits with other major developing country trading partners continued to grow, including Taiwan (up $782 million to $4.5 billion), Hong Kong (up $294 million to $3.1 billion), Korea (up $83 million to $108 million), and Brazil (up $186 million to $863 million). One bright spot was trade with Singapore, where increased exports resulted in a $1-billion surplus.

Exports by Product U.S. exports declined in all five major export categories in 1982. The largest percentage fall occurred in exports of food and feed, down 17.2 percent from $37.9 billion to $31.4 billion. This category – the only one to expand in 1981 – fell to its lowest value in three years, the victim of a strong dollar and surpluses of grain which drove down prices. Wheat sales fell by 14.9 percent to $6.7 billion while corn exports fell by 29.1 percent to $5.7 billion. Declines also occurred in fruits and vegetables, down 7.3 percent to $2.7 billion, and animal feeds, down 9.7 percent to $2.5 billion. The only major product whose sales expanded was soybeans, up 1 percent to $6.2 billion.

The capital goods category, the largest component of U.S. exports, fell 9.3 percent to $72.7 billion, following a 10.4-percent increase in 1981. Exports of the majority of items falling into this category fell substantially except for high technology items which experienced modest increases. Among the products experiencing the steepest declines were aircraft (down 43.7 percent to $2.2 billion), nonfarm tractors (down 33.2 percent to $2 billion), metalworking machinery (down 24.1 percent to $1.6 billion) and agricultural machinery (down 19.6 percent to $1.8 billion). Chalking up increases were high technology items such as computers and peripheral equipment (up 5.5 percent to $9.3 billion), broadcast and communications equipment (up 4 percent to $6 billion) and measuring and testing equipment (up 1.3 percent to $2.7 billion). The only non-high technology item to keep up brisk export sales in 1982 was drilling and oilfield equipment which climbed by 19.7 percent to $5.4 billion, just slightly below its brisk sales pace in earlier years.

Not surprisingly, the hardest hit component of U.S. exports was automotive products, down 12.9 percent to $15.7 billion from $18 billion in 1981, due to decline in world demand. Sales of cars fell 27.2 percent to $2.9 billion while sales of trucks and buses were

down slightly less (25.4 percent) to $2.5 billion. Automotive parts exports to the Canadian affiliates of American car makers were one of the few areas that increased (by 4.9 percent to $6.1 billion), but sales of automobile parts to the world fell 3.8 billion to $10.3 billion.

Industrial supplies were also hard hit in 1982, falling 8.9 percent from $67.7 billion to $61.7 billion for the second year of declines. Sales of nonferrous metals and nonferrous ores and scrap contracted sharply by 13.6 percent and 30 percent, as did steel down 30 percent to $2.1 billion. Other products experiencing major declines were paper base stocks (down 15.3 percent), cotton (down 13.5 percent), fertilizers and insecticides (down 10.2 percent), textiles (down 23.1 percent), and newsprint and paper products (down 10.3 percent). Organic and inorganic chemicals were also off by lesser amounts. On the other side of the industrial supplies ledger, petroleum and petroleum products shot up 60.9 percent from $3.7 billion in 1981 to $5.9 billion in 1982. Coal exports also expanded to 5.9 billion, up 2.2 percent from 1981's level of $5.8 billion. The only other product experiencing growth was logs and lumber, up 1.7 percent to $2.1 billion.

The final category, consumer goods, also declined in 1982, with exports slipping 9.4 percent to $14.3 billion. The decline, however, was not evenly spread throughout the category with pharmaceuticals, and toys and sporting goods up 6.7 percent and 3.2 percent respectively while declines occurred in clothing (22.7 percent) and electric household appliances (17.7 percent). Sales of printed materials remained flat at $1.3 billion.

Imports by Products Imports slowed in 1982, recording negative growth in three of the five major categories. As in 1981, the cutback was due in large part to the scaled-back imports of industrial supplies. This category, which accounts for nearly half of American imports declined 16.8 percent in 1982. The decline was attributable to the 30-percent drop in oil imports, going from $65.7 billion in 1980 and $61.9 billion in 1981 to only $45.9 billion in 1982. The volume of crude oil imported in 1982 fell to an average 5.3 million barrels a day from 1981's 6.1 million barrels per-day mark, as the continued recession encouraged conservation. Declining volume was combined with a drop in the average price per barrel paid by the United States from $34.30 in 1981 to $31.48 in 1982.

Reduced imports were also typical of most other industrial supplies in 1982. Outside of oil, nonferrous metals and nonferrous ores and scrap recorded the steepest declines, down 23.5 percent to $5.3 billion and 23.8 percent to $1.6 billion, respectively. Lumber and paper base stocks also were down substantially, by 14.6 percent to $1.8 billion and 16.1 percent to $1.6 billion. After shooting up by nearly 50 percent in 1981, steel mill products fell by 7.1 percent to $9.6 billion in 1982 due to lowered demand. Nevertheless, steel imports kept their market share and tension continued, leading to restrictions on imports from the European Community and pressure on Japan. Purchases of textiles were off 7.8 percent, while imports of petroleum products, newsprint and paper products and organic chemicals were all off by less than 1 percent from the 1981 levels. Modest increases were posted in only a few industrial supplies, including natural gas (up 3.7 percent to $5.9 billion) and inorganic chemicals (up 12.1 percent to $2.6 billion).

The largest decrease in imports occurred in the category of food and feed, off 27.1 percent to $13.2 billion. This decline was primarily due to a sharp contraction in sugar imports, off 59.7 percent in 1982 to $863 million, from $2.1 billion in 1981. The import market for sugar was down because of a sharp drop in volume to about 2.4 million tons, an average import price 28 percent lower than 1981, as well as higher duties and country quotas. Other major imports in this category were up, led by fruits and vegetables, with an increase of 8.9 percent to $2.8 billion. The other gainers included meat (up 4 percent), fish (up 6.1 percent), coffee (up 4.1 percent) and alcoholic beverages (up 4.8 percent).

Consumer goods retrenched in 1982, down 5.1 percent to $36.7 billion in 1982 compared to a 12.5-percent increase in 1981. The picture in this category was uneven with some products declining and other expanding. The largest drops were recorded in clocks and watches (down 23.2 percent to $965 million) and motorcycles (down 18.6 percent to $1.1 billion). Smaller declines were experienced in electric household appliances, televisions, glassware and tableware, and cameras. In contrast, toys and sporting goods, cookware and cutlery, and footwear rang up substantial increases of 25.5 percent, 19.8 percent and 13.9 percent. Clothing imports also continued to be strong, up 8.5 percent to $8.2 billion.

Products in the capital goods category also recorded an uneven performance, but overall managed a modest increase of 2.5 percent to $35.4 billion in 1982 from 1981's $34.5-billion level. Electric machinery purchases went from $9.9 billion in 1981 to $10.5 billion in 1982, a 6.7 percent increase. Under nonelectric machinery, imports of machine tools and specialized industrial machinery were both down, the first by 4.5 percent to $1.9 billion and the second by 11.1 percent to $3 billion. The nonelectric machinery subcategory as a whole, however, increased 2.9 percent because of a considerable 30.2 percent expansion in imports of business machinery which went from $4.7 billion in 1981 to $6.2 billion in 1982. Imports of transportation equipment recorded the largest decline in this category, off by 10 percent to $3.6 billion, mostly attributable to an 8.5 percent fall to $3.4 billion in imports of aircraft and aircraft parts.

Automotive products registered the highest growth rate among import products, expanding 11.8 percent in 1982 to $33.3 billion, compared to a growth of 9.9 percent in 1981 and 5.9 percent in 1980. Imports of passenger cars increased 11.5 percent from $17.7 billion in 1981 to $19.8 billion in 1982 mainly reflecting higher unit prices since the volume of passenger cars increased only slightly (0.8 percent) to 2,837,957 from 2,816,824. Purchases of automotive parts were also up, 8.9 percent to $7.8 billion. In contrast, imports of trucks and buses fell 2.5 percent to $4.7 billion, after registering a 19.1 percent increase in 1981, in large measure due to higher U.S. tariffs on lightweight trucks.

International Economic Policy

Overall trade policy of the Reagan administration in 1982 continued in theory, if not always in reality, to embrace liberal trade and export expansion as its twin objectives. The February 1982 *Economic Report of the President* reiterated the administration's 1981 commitment to pursue policies

aimed at achieving liberal trade and reducing trade distortions. It warned against domestic pressures seeking either to restrict access to U.S. markets in retaliation for other countries' protectionist policies or to subsidize U.S. exports, referring to them as "neo-mercantilist" and inconsistent with the President's goal of "less, not more, government interference in the marketplace."

In accordance with these views, 1982 became a year in which export promotion, especially initiatives aimed at promoting private sector sales abroad, stood out. Most importantly, the Export Trading Company Act was finally passed. Sections of the Commerce Department important in export promotion were also reorganized in an attempt to make them more effective.

One export-related issue on which the non-interventionist policy of the administration was tested was the policy it pursued during the Export-Import Bank debate. The White House continued, as it had in 1981, to hold down the levels of funding, although it retreated from this position when the debate took place in the Organization for Economic Cooperation and Development over appropriate interest rates (see Part III). This policy was also reflected through the continued opposition of the administration to trade adjustment assistance.

Commerce Reorganization

At the beginning of the year, Undersecretary of Commerce Lionel Olmer announced plans for a realignment of the International Trade Administration (ITA) to improve the department's export-promotion services to U.S. businesses. Under the new plan, ITA's export functions were divided into geographical and sectoral clusters, shifting certain offices between the International Economic Policy (IEP) and Trade Development (TD) units to form groups of offices with geographical expertise in IEP and sectoral specialization in TD. The Foreign Commercial Service and U.S. Commercial Service headquarters' staff were also combined and strengthened, which, according to the Commerce Department was to lead to better coordination of services. In light of the Office of Management and Budget's rumored desire to eliminate the Foreign Commercial Service, the realignment may well have salvaged a program that received high marks on Capitol Hill.

International Economic Policy Offices realigned on a country basis, included: International Trade Policy (OITP), International Economic Research (OIER) and the Investment Policy Division. These were joined by the Office of Country Marketing (OCM and Office of East-West Country Affairs, transferred from Trade Development. Moving out of IEP to the Trade Development industry "sector" clusters were the offices of International Sectoral Policy (OISP), International Finance (OIF), International Services (OIS), Textiles and Apparel (T&A) and Trade Adjustment Assistance (TAA). Moving out of IEP to the Trade Development Information and Analysis Cluster were Planning and Research (OPR), Trade Data Analysis (OPDA) and the Research & Assessment and Investment Analysis divisions of International Investment.

The Trade Development offices realigned on a "sector" basis included Export Promotion (OEP), Export Marketing Assistance (OEMA) and East-West Trade Development (OEWTD). These were joined by the offices from IEP mentioned above. Trade Development offices realigned into the Information & Analysis Cluster were East-West Policy and Planning (OEWPP), Trade Information Services (OTIS) and Export Planning and Evaluation (OEPE). These, too, were joined by some offices from IEP, as listed above. In exchange, Country Marketing (OCM) and East-West Country Affairs (OEWCA) were transferred to the IEP country clusters.

Export Promotion

Export promotion was the area of greatest activity in 1982. Both the executive and legislative branches pushed for passage of the Export Trading Company Act, notwithstanding disagreement on specific provisions among certain key actors. Discord, however, was more characteristic of other export promotion issues primarily due to continued ideological opposition by the executive branch to the federal subsidy of exports.

Export Trading Company Act The most significant development in export promotion was the passage of the Export Trading Company Act after three years of deliberation. Liberal trade advocates contended the new law could generate an estimated 340,000 to 640,000 new jobs over the next three to four years. Since the employment repercussions of the legislation were neither immediate nor identifiable by sector, however, it had been difficult to build as much enthusiasm for this measure compared to the promise of jobs through domestic-content requirements. Although House and Senate differences concerning certain aspects of the bill were an inhibiting factor, perhaps this absence of constituent interest also contributed to the measure's immobility for close to a year and a half.

The Export Trading Company Act breezed through the Senate early in the first session but became bogged down in the House Judiciary and Banking Committees in the summer of 1981. Judiciary Committee chairman Peter Rodino (D, N.J.) and ranking minority member Robert McClory (R, Ill.) objected to the provision under which an export trading company (ETC) would be granted antitrust immunity for "certified export activities." Banking Committee chairman Fernand St. Germain (D, R.I.), on the other hand objected to bank equity participation in an ETC. Senate proponents therefore spent much of 1982 trying to effect a compromise with their House colleagues. Ultimately, the House passed a considerably different version, and an exhaustive conference was required to bring the two bills into accord. As signed into law by President Reagan on October 8, the Export Trading Company Act contained the following provisions:

- It allowed bank holding companies and bankers' banks to invest or lend as much as 5 percent of their consolidated capital and surplus in an ETC. This was the first exception to the traditional separation between banking and commerce. The original Senate language would have permitted a wide variety of banks to invest in these ventures.
- There was a 60-day disapproval procedure on the part of the Federal Reserve Board for proposed bank investments, but the Senate insisted on a new section that provided definitive guidance to the Fed in implementing this new statute.
- The House also conceded to the Senate by adopting its use of the term "principally for the purpose of exporting goods and services" to de-

fine the purpose of the bank-affiliated ETC. The House language would have required that a bank-affiliated ETC be engaged "exclusively" in the export of goods and services.

- A significant aspect was the partial protection provided under the act from U.S. antitrust suits. The Commerce Secretary was authorized to certify an ETC if it could prove that its business activities would not lessen competition or restrain trade; raise, stabilize or depress prices; constitute unfair competition against firms engaged in the same business; or result in consumption or resale of exported goods or services. Once certified, an ETC could only be sued by a private party for single damages (rather than treble damages under antitrust law) for violating the above standards. The Commerce Secretary could not issue the certificate, however, without the approval of the Attorney General, and activities that were not specifically certified remained liable to antitrust action.

Administration officials, who had placed a high priority on the measure's passage, called it "a major breakthrough in the nation's effort to strengthen its export sector and to create jobs" by eliminating previously existing handicaps to exporting, especially for small and medium-sized firms. Thus, hopes were high for the potential benefits from the act at the end of the year but it was still too early to foresee the ultimate outcome.

Export-Import Bank In a second export-promotion issue during 1982, Congressional supporters of the Export-Import Bank (Eximbank) waged a long fight with the administration concerning the adequacy of the bank's funding levels. Free-trade advocates in the White House who opposed export-credit subsidation of any kind would have liked to eventually phase out the institution. Supporters on Capitol Hill countered that if U.S. exporters were to compete in a world where concessionary financing is rampant, they needed the proper tools provided by the Eximbank.

The debate began when the Reagan administration proposed a $3.8-billion ceiling for Export-Import Bank direct loans during fiscal 1983. This move sparked sharp Congressional reaction. As part of the omnibus budget reconciliation package for FY 1982, Eximbank proponents on Capitol Hill then inserted language appropriating $5.4 billion for the next fiscal year. The aim was not only to restore some of the funding, but also to call attention to the critical importance of a strong Eximbank in promoting U.S. exports and fighting foreign predatory financing.

Prior to the election recess, however, Congress went along with the administration and slashed the Eximbank's direct loan authority for fiscal 1983 to $3.8-billion, down from fiscal 1982's $4.4-billion level, and cut its loan guarantee and insurance authority from $9.22 billion to $8 billion.

Senate supporters during the lame-duck session tried to restore fiscal 1983 authority to at least the $4.4-billion mark. Senator Henry Jackson (D, Wash.) introduced a "sense of the Congress" resolution urging the President to recognize Eximbank's importance in export promotion and to allocate the bank more direct loan and loan guarantee authority for 1983. The resolution also directed the Senate to devote more attention to the bank's role in matching foreign concessionary financing. Another advocate, Senator John Heinz (R, Pa.), introduced an expanded version of the so-called "war chest" bill, S. 2600. This new bill sought to establish a $2-billion "Competitive Agricultural Commodities and Manufactured Products Subsidy Fund" to subsidize interest rates. These efforts failed, however, and the funding level remained at the $3.8-billion level.

In another development during 1982, the Export-Import Bank undertook a new program to boost American exports by helping companies match foreign concessionary financing. The new facility enabled commercial banks to provide medium-term fixed-rate loans in amounts of $4 million or less, with interest rates based on the schedule agreed upon by the International Arrangement on Guidelines for Officially Supported Export Credits. Funded by the bank's regular loan budget, this new program aimed to fill a gap in direct credit that exporters had cited as a problem repeatedly in recent years. Unlike the Eximbank's discount loan program, which supported export sales by small manufacturers, the medium-term program became available to exporters of any size.

Foreign Corrupt Practices Act Attempts were also made in 1982 to revise another trade measure, the Foreign Corrupt Practices Act (FCPA), in order to promote exports. The Senate's revisions to the FCPA (S. 708) aimed to clarify the 1977 antibribery act by, among other things, eliminating criminal liability for accounting control failures and clarifying what "grease payments" were permissible to facilitate a transaction. This bill easily passed in the Senate, but momentum came to a halt in the House Energy and Commerce Committee. Representative Timothy Wirth (D, Colo.), chairman of the Telecommunications, Consumer Protection and Finance Subcommittee, was skeptical of the need to clarify the act and late in the year demanded extensive information from various government agencies to confirm that current law acted as a drag on U.S. export activity.

Trade Adjustment Assistance

Efforts to revive, or at least save, certain aspects of the Trade Adjustment Assistance (TAA) program—which the administration intended to eventually abolish—did not progress very far during 1982 despite the twin pressures of economic recession and election year politics. Early in the year, both Houses modified the restrictive criteria under which TAA benefits were contingent on whether imports were considered a "substantial cause" of job loss, to a "contributed importantly" standard. Rep. Don Pease (D, Ohio), whose constituency included import-impacted workers, also tried to beef up what was left of the worker retraining program with his bill (H.R. 6882), which would have transformed TAA into an employment training program and funded it as an entitlement item rather than subject it to the discretion of the Labor Department. Senator Robert Dole (R, Kans.) and Rep. Frenzel (R, Minn.) also introduced measures (S. 2595) and H.R. 6509, respectively) more in line with the White House's philosophy, that would have totally eliminated TAA allowances for those workers not enrolled as of July 1, 1982 in approved training programs. The intent was to get displaced workers off welfare and into programs that would broaden their employment skills and smooth their adjustment to new fields.

By mid-year, activity on adjustment assistance had subsided but many suspected that it would receive renewed and vigorous attention from the 98th Congress as the view that aid to dis-

placed workers should be part of trade liberalization bargaining was expected to regain support.

Pipeline Sanctions

The administration's economic sanctions on exports of oil and gas equipment and technology to Poland and the Soviet Union in response to the declaration of martial law in Poland on December 13 became a major trade policy issue both within the United States and between the United States and its Western allies (see Part III).

While the initial sanctions imposed in December 1981 were controversial, the issue erupted after President Reagan in June extended the ban to include the prohibition of sales by overseas subsidiaries of American firms and foreign concerns producing energy-related equipment primarily for the Soviet Union under U.S. licenses. This decision angered American businesses with a stake in Soviet pipeline development as well as Europe and Japan.

At the beginning of August, the House Foreign Affairs Committee approved by a vote of 22-12 a measure introduced by Rep. Paul Findley (R, Ill.) to overturn the sanctions. At a subcommittee hearing on August 4, the Illinois Republican referred to Caterpillar Tractor Co.'s loss to Komatsu Ltd. of a bid on a Soviet pipeline-related contract, and contended that "all the sanctions . . . are doing is moving jobs from Illinois to Japan." Moreover, since the Olympic boycott and grain embargo failed to significantly affect Moscow's behavior, Rep. Arlen Erdahl (R, Minn.) added, "Washington should be willing to change or at least modify this failed policy." There was nearly uniform agreement among committee members that the June decision would probably hurt the United States more—in terms of lost jobs and allied friction—than it would weaken the Soviet military machine.

Testifying before the Subcommittee on International Economic Policy and Trade in defense of the embargo, Undersecretary of Commerce Lionel Olmer said that U.S. trade and business with countries of the Eastern bloc and Soviet Union amounted to only a pittance. Moreover, he said, the Foreign Corrupt Practices Act and human rights legislation "have done more to cripple U.S. exports than these limited sanctions would ever hope to accomplish." Undersecretary of State James Buckley added that the costs of U.S. inaction "simply" outweighed the sacrifices that we would have to make to bring home to the Soviets our seriousness of purpose." He also pointed out that anti-embargo rhetoric from U.S. allies had in fact subsided in the month since the prohibitions were announced.

By fall, the administration backed down. It announced on November 13—three days after the death of Soviet President Brezhnev—that an agreement had been reached with its allies on future trade policy toward the Soviet Union and the sanctions were lifted.

Part VI
U.S.-Japan Relations

Overview

The preceding parts of this yearbook have provided the setting against which bilateral economic relations evolved during the year. These developments are considered in detail here, most of which were continuations of issues or problems carried over from 1981, as described in Part II. The major issues of the year are separated here into three areas: U.S. access to Japanese markets, Japanese access to U.S. markets, and Japan's defense role. This does not mean that all of the discussions of the year are easily separable, especially in Congress, where all three areas seem to meld together. Following consideration of these three issue areas, this part of the year book considers the bilateral trade outcome and direct investment flows.

Access to Japan's Markets

From the fall of 1981 the Reagan administration had begun to press Japan on the question of market access, arguing that import barriers were at least partly responsible for the bilateral trade imbalance. At first the administration declined to press for specific concessions, saying that it should be sufficient to warn Japan to take actions that would demonstrate its commitment to the future of the liberal trade system. By the end of November of that year, however, it became clear that Tokyo was unprepared to deal with this general approach and the United States defined its position by pointing to a number of specific problem areas. The European Community (EC) and other nations also expressed dissatisfaction with certain Japanese trading practices.

In response to this widespread foreign criticism, the Japanese government began to formulate a response, which it announced at the end of January 1982. This took the form of a list of 99 specific items, of which 67 were marked for some form of favorable action. In addition, an Office of Trade Ombudsman was to be established to provide an institutionalized window to handle foreigners' complaints.

Washington's response to this package was cool, and Congress began to consider the reciprocity legislation that would intensify protectionist pressure later in the year. Japanese envoys to Washington, such as Masumi Esaki, Chairman of the LDP special committee on trade, were sent home with tough messages from the executive branch and Congress. The EC, too, kept applying pressure, and at length the Japanese government offered a further set of unilateral measures prior to the June industrial-nation summit. Announced at the end of May, this included the elimination or reduction of tariffs on a wide range of items plus some concessions related to nontariff barriers. This package was somewhat more warmly received in Washington as another indication of the policies it ultimately wanted from Japan, although the executive branch remained basically dissatisfied. Not wanting to undermine the progress already made, and realizing that implementation of the measures already announced could take some time, the administration muted its criticism and opted for a periodic series of bilateral working-level meetings to monitor implementation.

Gradually, the tone of these bilateral meetings worsened. The situation was exacerbated by the separate talks being held on beef and citrus quotas, an issue that the Japanese government had split off and not addressed in either of the market-access packages. When these talks began in Hawaii during October, they quickly collapsed.

By December, dissatisfied over the lack of progress in the working-level talks, the administration was threatening unspecified retaliation if Japan failed to take more positive actions. Key to this approach was the administration's implied support for several pieces of protectionist legislation in the Congress. However, the change in leadership in Tokyo precluded further action during 1982 while the new government organized its position. A decision was made to line up a state visit to Washington in January to help move the bilateral relationship away from the increasingly antagonistic approach of 1982.

Amid the plethora of problems and accusations, it is worth noting that some sectoral issues between the two countries were resolved. Japan's restrictions on California produce, for example, were lifted when the affected areas in California were declared free of the Medfly. The long-standing civil aviation dispute also came to at least a temporary halt with a three-year agreement scheduled to take effect in April 1983. These episodes of success, however, did little to suppress the rising tide of overall frustration and annoyance generated by the pressure and resistance on the many other issues relating to market access in Japan. The year ended on a low note, with expectations that the same problems would continue to dominate relations in 1983.

Access to U.S. Markets

While the executive branch focused on market access in Japan, these issues were closely intertwined with questions of Japanese access to American markets. Congress, for one, has generally been more interested in the import side of the bilateral relationship. Reciprocity legislation made it possible for Congress to link the administration's emphasis on increasing export opportunities in Japan to traditional congressional interest in protecting domestic industries. Reciprocity was superceded in the second half of the year by congressional interest in domestic content legislation on automobiles, but this did not become law. Another straightforward protectionist measure was attached at the end of the year to the Transportation Assistance Act of 1982, mandating a buy-American preference in federally assisted highway construction.

During 1982, autos were once again the focus of the most attention. Having jumped the initial hurdle of providing protection for the auto industry in

1981, it was much easier to continue that regime in 1982. Although the original agreement spoke of increasing the restriction by 16.5 percent of any forecasted growth in the U.S. market, the Japanese were quickly pressed into accepting the same level of shipments as in the first year. Since 1982 failed to bring any economic recovery, though, even this deal left the Japanese auto makers with an undiminished share of the U.S. market and strong pressure was brought by the U.S. auto industry and the United Auto Workers to extend the limits for a third year (the possibility of which was only vaguely suggested in the original agreement). The major difference in the administration's approach during the year seemed to be that the deep divisions over policy were gone; there was general agreement on continuation of the limits and that opinion was openly expressed—as distinct from the ritual dance of 1981 in which the administration tried to absolve itself of direct responsibility for restricting imports, partly to sidestep possible antitrust problems and partly to maintain its liberal trade credentials.

Autos were not the only industry seeking protection during 1982. The machine tool industry, long disturbed by Japanese inroads, took a novel action. Houdaille Industries Inc. submitted a petition based on U.S. tax law, arguing that the Japanese industry benefitted from policies that were cause for denial of investment tax credits to firms purchasing those products. Because this represented a landmark case, with important implications for other U.S. industries, no decision was reached during the year as intensive discussions took place in the administration. This case also marked the beginning of the focus on Japan's industrial policy that would prove to be such a prominent topic in 1983.

Other problems included the perennial question of steel imports, where pressure directed against Europe was redirected against Japan by the end of the year. In addition, there were problems with industries such as fisheries, industrial fasteners, color television, and textiles. A final, novel difficulty was posed by charges of industrial espionage levied against two Japanese companies for trying to illegally acquire IBM computer technology.

Defense

While the negotiating teams on both sides dealing with the question of Japan's defense role did not share the animosity that seemed to characterize trade issues, the fact remained that the two countries continued to disagree on what Japan's defense role should be. This was a delicate area, though, as the United States applauded efforts by the Japanese government to increase the proportion of GNP spent on defense in the face of severe overall fiscal constraints. Both the FY 1982 defense budget (up 7.75 percent) and the proposed defense budget for FY 1983 (up 6.5 percent) were less than the United States would like, but represented sizable exceptions to the stringent controls on other government spending. That put the United States in a position of pressing for a greater defense commitment without pushing for particular spending figures. In the background, the Congress, which held a number of hearings during the year on bilateral defense issues, called for Japan to buttress the alliance, and accused it of not carrying its "fair share" of the defense burden.

Among the specific issues pressed during the year was the question of licensing Japanese defense-related technology to the United States. This was pushed in 1982 as a positive symbolic change in Japan's response to the United States. No agreement was reached on the issue during the year as Japan continued to debate whether or not military technology transfers would violate its principles governing the export of weapons. With the arrival of Mr. Nakasone in December, however, the stage was set for a favorable decision by the government, finally made in January 1983.

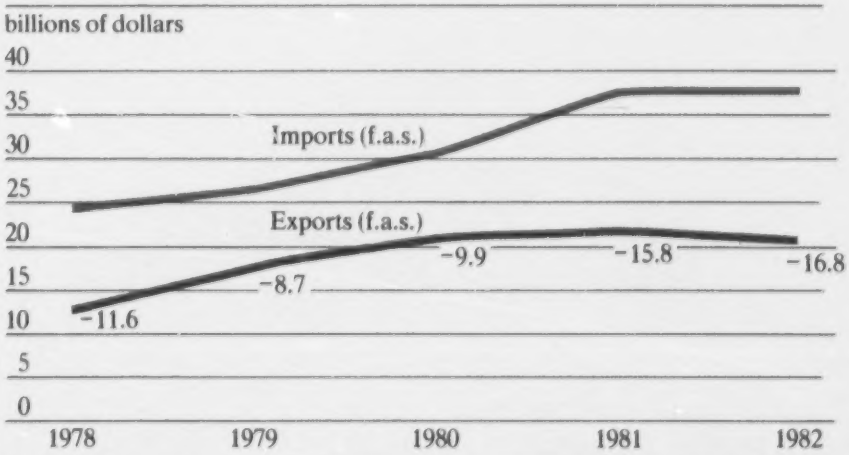
Trade and Investment

Amidst all the rhetoric and discussion surrounding the various problems of the year, the quiet business of business continued between the two countries. Despite earlier fears, the bilateral merchandise trade imbalance did not widen appreciably, but there was a disappointing drop in trade in both directions as a result of recession and (for U.S. exports) the strong dollar. While this was not a welcome development, at least falling trade was characteristic among industrial nations in general and not just in the U.S.-Japan bilateral relationship (See Part III). Direct investment, on the other hand, continued to expand. Japanese investment was up at a brisk pace, both in the United States and worldwide. Direct investment by U.S. firms in Japan was also up, but not by as much as in some previous years.

Access to Japan's Markets

Made the major pressure point of Reagan administration policy on Japan during the summer and fall of 1981, access to Japan's markets remained a preeminent topic throughout 1982. By November of 1981, the administration

Bilateral Trade



Source: Department of Commerce

had provided Japan with a specific shopping list of problem areas it wanted addressed. In mid-December the Suzuki Cabinet officially decided to put together a package of concessions in response to this demand, and similar ones from other countries.

Pressure to make unilateral concessions was reinforced in December by a third report on relations with Japan by the House Ways and Means Committee's Subcommittee on Trade that returned to being rather critical of Japan. This was further reinforced in January by a visit to Japan by several senators and congressmen, including Senators John C. Danforth (R, Mo.) and John H. Chafee (R, R.I.). They told Foreign Minister Yoshio Sakurauchi that Tokyo must take definitive actions to dismantle nontariff barriers to establish a fair and reciprocal trade relationship with the United States and underscored the fact that protectionist pressures were building on Capitol Hill to the point that legislation was ready to be introduced should the trade picture fail to improve.

The same theme was reinforced again at a meeting in Florida of U.S., E.C., Canadian and Japanese government officials to address trade issues in a broad way. United States Trade Representative (USTR) William Brock emphasized at the meeting that if congressional pressure was to be averted, the trading partners would have to make more of an effort to open their respective markets.

At the Florida meeting, at meetings with the senators in Japan, and on other occasions, Japanese government officials took the opportunity to note that their package of concessions would be ready by the end of January. They expressed some optimism that this would solve much of the problem.

January Package

The Japanese government finally announced its policy on a long list of 99 nontariff barriers on January 30.

Content The package ranged from broad policy measures affecting all imports to individual products from particular countries or companies. Of the 99 items on this list, the Cabinet agreed to changes (some of which had already been taken) intended to eliminate the problem in 67 cases. On nine other items no final decision was made, pending the outcome of further studies, including harmonization with the United States and Europe on the designation of food additives and their allowable amounts. Fifteen items were declared to be the result of misunderstandings or to represent situations where Japanese government policy was already consistent with international practice (such as the Japanese limitation on residual sulfur dioxide in frozen shrimp) so that no action was deemed necessary. This left eight items on which no action was taken, on the grounds that existing policies were necessary and legitimate—including a decision against self-certification for foreign autos, a request judged to be inimical to ensuring automobile safety.

The first five items on the long list governed general policy changes directed at customs procedures that applied to all imports, including adoption of an "after-permit-examination" system (allowing the release of goods from customs prior to duty assessment), simplification of customs examination, reduction of documentation requirements, less extensive sampling for physical inspection, and greater efforts to ensure uniform customs classifications. These changes were intended to redress what many exporters to Japan felt to be overly bureaucratic and arbitrary customs procedures.

Of the remaining items on the list, which were organized by ministry and applicable law, many were very specific—to the point of dealing with a single product. A large number were related to pharmaceuticals and cosmetics, an area that had been of particular concern. The measures, which the Cabinet intended to implement, included alteration of some standards, acceptance of certain types of foreign test data, and correction of certain minor irritants (such as holding up customs approval because of typing errors).

In addition to these efforts, the Cabinet also agreed to establish an ombudsman's office to provide improved, centralized handling of trade-related complaints. This had been recommended in 1981 by the Japan-United States Economic Relations Group ("the Wisemen"). Headed by the Deputy Cabinet Secretary, it was to be staffed by viceministers representing relevant ministries and agencies. Hoping to provide speedy disposition of problems brought to it, the new ombudsman's office established that during grievance proceedings, the office would inform complainants within ten days if their grievance had been accepted and inform them as soon as possible of its final determination. If processing the grievance were to take a month or longer, information on the status of the case was to be provided to the complainant at least monthly. When the complainant was informed of the final determination, the reasons for the determination would be clearly indicated and accurately conveyed.

Reaction The Reagan administration did not issue a formal response to the unilateral market access package, choosing instead to filter its displeasure with the extent of the reforms through sub-cabinet bureaucrats. Most officials agreed that while the scheduled changes represented a good faith effort on the part of the Japanese, the package was by no means adequate to establish a more balanced bilateral economic relationship. Many of the measures, it was stressed, had already been taken (and therefore did not constitute a significant breakthrough), while others were so specific that they would have virtually no impact on the bilateral trade account, let alone liberalizing Japanese trade policy. U.S. trade officials therefore began considering a broad range of measures to push the Japanese still further, including the possibility of trade sanctions or taking Japan before the General Agreement on Tariffs and Trade (GATT).

While not actually endorsing the reciprocity legislation pending in Congress (discussed later in Part VI), administration sources nevertheless conceded that these bills were not necessarily inconsistent with the "equivalent market access" theme pursued by Deputy USTR David Macdonald during the December trade talks in Tokyo. Moreover, just prior to Tokyo's announcement of its package, Commerce Secretary Malcolm Baldrige indicated his support for reciprocal sanctions against Japanese businesses if the Japanese did not—in his view—take adequate steps to open markets to U.S. exporters.

Somewhat more formal statements were made when Congress continued its assault on Japanese trading practices in a February hearing devoted to U.S. international economic policy. By terming Tokyo's trade liberalization package its "latest charade . . . with an eye on winning the industrial war," Rep. Fred Richmond (D, N.Y.), at a February 10 Joint Economic Commit-

tee hearing, cast his lot with those favoring a policy of trade "reciprocity" with Japan. Administration witnesses, while sympathetic to the frustrations expressed, nevertheless avoided endorsing bilateral sanctions against Japan that exceeded the purview of existing U.S. trade law and the GATT codes.

Although the JEC hearings were ostensibly an overview of U.S. foreign economic policy, the dialogue focused largely on the perception that the United States was maintaining a one-sided trade relationship with Japan due to Tokyo's unjustifiable reluctance to open its market to more U.S. goods. Both U.S. Trade Representative William Brock and Commerce Secretary Malcolm Baldrige agreed with Rep. Richmond that the 67 nontariff barriers Japan had eased in its package were disappointing in their scope and hardly adequate to bridge the ballooning bilateral trade deficit.

Although both Cabinet officials pointed out that the markets in Japan with the most immediate and sizable potential for U.S. exports, such as cigarettes, citrus, leather and soda ash, were not addressed in the initiative, they stressed that the package should be viewed within the context of the past year. Secretary Baldrige observed a year earlier, it was impossible for Washington to broach the subject of trade barriers with Tokyo. Therefore, the new effort, while disappointing, was nevertheless indicative of a slowly emerging political consensus in Japan to eliminate barriers. He maintained that the imposition of trade restrictive measures would hardly expedite this process, and might even undermine it.

The trade ambassador responded to Rep. Richmond's heavy-handed assertion that the United States was being "financially raped" by Japan by admonishing the congressman not to force him into a position of defending Japan. He then assured Mr. Richmond that the United States was hardly lacking weapons to rectify unfair trading practices, and that he was confident Washington would see a more equal U.S.-Japan trade relationship in the next couple of months. When he addressed the recent flurry of bills that sought to incorporate the concept of reciprocity into U.S. trade law, Mr. Brock carefully avoided endorsing any one proposal but reminded committee members that a major goal of the President's Economic Recovery Program was to pursue further reciprocal trade liberalization.

In this way, the administration signaled its displeasure while trying not to seem ungrateful that at least some movement on reducing trade barriers was forthcoming from Japan. Nevertheless, the reaction was quite negative and set the stage for further discussion, pressure and concessions.

Spring Discussions

With Washington's dissatisfaction running high, and clearly communicated by the administration to Congress, bilateral activity during the spring was geared toward wringing further action out of Japan.

LDP Mission Hoping to win greater understanding of its concessions and its overall position on trade, Prime Minister Suzuki sent Masumi Esaki, chairman of the Liberal Democratic Party's (LDP) special committee on trade, as an envoy to Washington to meet Reagan administration officials, plus congressional and business leaders. During his February 20 to 25 visit, Mr. Esaki and his delegation explained Japanese efforts to streamline nontariff barriers and to accelerate scheduled tariff cuts to the Americans.

The Japanese delegation encountered a difficult political climate in Washington. Congressional leaders were particularly adamant about opening the Japanese market. Senator John Danforth (R, Mo.), for example, impressed upon Mr. Esaki that he had proposed a reciprocity trade bill in order to force open the Japanese market on a continuing basis. The senator also expressed his dissatisfaction with parliamentarian exchanges and official talks which he felt were not enough to improve bilateral trade relations. He used agricultural products as his example of Japan's closed market.

While visiting Capitol Hill, the Esaki delegation held a breakfast meeting with members of the House Ways and Means Trade Subcommittee that congressional sources felt was a "useful exchange of views." Subcommittee chairman Sam Gibbons (D, Fla.) evidently used this opportunity to restate many of the concerns expressed in the subcommittee's December report on U.S.-Japan economic relations. Committee members were generally appreciative of the trade liberalization package (drafted largely by Mr. Esaki's group), but stressed, as did many others in Washington, that additional measures must be forthcoming. Delegation members responded that they did not intend to stop with the announced actions on 67 nontariff barriers because they, too, regarded trade liberalization as an ongoing process.

A subsequent meeting with members of the House Foreign Affairs Asian and Pacific Affairs Subcommittee proceeded along similar lines. While specific bills addressing trade reciprocity were not discussed, committee members evidently sought to reinforce the idea that the general mood in Congress dictated that Japan must open its market more if it were to continue to enjoy access to the U.S. market.

Mr. Easki's meeting with Commerce Secretary Baldrige received more Japanese press coverage than any other event during the visit. *Asahi Shimbun* reported from Washington that Mr. Baldrige asserted that unless Japan were to take dramatic action soon, the reciprocity trade bills pending in Congress might actually pass. Mr. Baldrige reportedly brushed aside the Japanese side's arguments that the major reasons for the weak American export performance were the high interest rate policy of the United States, which created a cheap yen that in turn accelerated the trade imbalance, and a lack of effort by American exporters to penetrate the Japanese market. At the beginning of the meeting, the Commerce Secretary declared that his views represented not only the Commerce Department, but also the U.S. Trade Representative's office and the Departments of State, Agriculture and Treasury. He later added that if the objective of Esaki mission was to persuade Americans that Japan had few import barriers, then that objective was not achieved. He urged the Japanese leaders in Tokyo to understand that serious economic conditions existed in the United States and to take appropriate actions.

Back in Tokyo, there was strong reaction to Mr. Baldrige's remarks. Prime Minister Suzuki expressed his dissatisfaction with American demands to open the Japanese market because they were abstract and without specific details. The Chief Cabinet Secretary, Mr. Kiichi Miyazawa, held a press conference to assert that Japan made considerable sacrifices with its proposal of accelerated tariff cuts and improvements in nontariff barriers. He was quoted as saying that those who were familiar with the GATT codes praised what Japan had done but that

the Americans did not seem to understand GATT. Mr. Miyazawa criticized the idea of reciprocity in trade as a misguided idea that would take the world backward to the 1930s. At the same time, Mr. Miyazawa expressed his concern that the American image of Japan as an unfair trade partner was based on misunderstanding.

As is evident from these strong words on both sides, the Esaki mission was not a success. It neither eased tension nor reduced pressure, nor calmed the rhetoric. In its wake, Washington remained convinced that the Japanese were trying to get away with cosmetic concessions, while Tokyo felt insulted and bullied, but realized that more action would be necessary to placate the Americans. Mr. Esaki later travelled to Europe on a similar mission (see Part IV), which met with a similar fate.

House Hearings Administration opinions were reiterated before Congress in the first of a series of hearings on Japan held by the House Asian and Pacific Affairs Subcommittee at the end of February. Overall, the hearings were moderate in tone and committee members appeared genuinely concerned about examining the problem areas in the bilateral relationship rather than once again publicly chastising the Japanese for their "closed market" or "free ride" in defense. Similarly, administration witnesses were generally supportive of Japan's efforts in the defense and trade fields, but stressed that the efforts had to be continued since the United States expected significant and continuous improvements in these areas of friction in the immediate future.

Deputy Trade Representative Macdonald reiterated the common complaint that the Japanese persisted in shielding their industries and effectively closed their market in import areas in which the U.S. was highly competitive. He cited the inability of U.S. magnesium producers to sell to the Japanese aluminum cartel and the problems California sake brewers had in penetrating Japan's large market. Tokyo's accelerated tariff reduction policy and establishment of an ombudsman's office for U.S. exporters were welcomed "first steps", the deputy trade ambassador added, but as the relatively narrow scope of the January trade liberalization package indicated, the Japanese were still "not quite getting down to the problem."

In a colloquy with ranking minority member Joel Pritchard (R, Wash.), Mr. Macdonald acknowledged that a complete removal of all of the remaining tariff and nontariff barriers would still not equalize the trade account, but emphasized that it would make a significant difference in certain product areas, particularly for cigarette exports. He responded to Rep. David Bowen's (D, Miss.) remark that trade negotiators appeared more biased in favor of trade in manufactured goods, even though bilateral agricultural trade accounted for a larger volume than any other sector and was the most affected by Japan's unfair trading practices, arguing that in working-level trade talks, U.S. agricultural officials are always the first to present their case.

Senate Hearings Discontent over the purpose and outcome of the Esaki mission cropped up in hearings held by the Senate Banking Committee at the beginning of March. Key trade policymakers concluded that Mr. Esaki's visit to Washington was a disappointment because it focused only on piecemeal solutions involving the liberalization package of 67 items announced in January rather than on fundamental changes in Japan's trading practices. The goals of this visit were "obscure to them and us," Undersecretary of Commerce Lionel Olmer maintained. "They wanted to discuss the specific points [and create] a smokescreen, rather than consider more general problems [that inhibit American exporters' ability to compete in Japan]." Deputy USTR David Macdonald agreed, characterizing Japan's nontariff barriers as an onion that concealed layer upon layer of protection. Tokyo, he said, still viewed trade frictions in stark black-and-white terms and believed that all Washington wanted was a restriction on exports to the United States. "We're concerned about pervasive practices," Mr. Olmer stressed, "not just isolated barriers."

Although there was no administration endorsement at these hearings for the reciprocity bills, Mr. Macdonald said that the Executive Branch "could stand some tools" to build a new set of international rules governing trade in services and investment flows. He suggested congressional initiatives aimed at broadening retaliatory powers in Section 301 of the Trade Act of 1974 to cover the investment sector as well as those pertaining to international negotiations in the services and investment sectors. Both officials looked with disfavor on proposals to incorporate the concept of reciprocity into U.S. trade law, arguing that it was far preferable to give the White House the tools it needed to deal with trade and investment barriers rather than to apply mirror image reciprocity to global trading relations. It was clear that Japan was the main target for such tools and that these comments constituted another step in the effort to demonstrate to Japan that failure to make further concessions would cause it more trouble in the United States.

Bilateral Meetings: Tokyo Trade talks chaired by Hiromu Fukuda of the Ministry of Foreign Affairs and Deputy U.S. Trade Representative Macdonald took place in Tokyo in early March. Agreement was reached on establishing a working group on agricultural products; advancing trade-liberalization talks on beef, oranges and citrus juices; consulting on fishery products; and forming a study group on advanced technology. Once again, however, U.S. criticism of Japan's barriers to trade was the focus of the American delegation's efforts.

On agricultural and fishery products, the two sides agreed to set up a working group to discuss Japan's 22 residual import restrictions. Its first meeting was scheduled for April, with trade-liberalization talks on beef, oranges and citrus juices to follow in October, and consultations on fishery products commencing one month later.

Despite the progress on these fronts, the U.S. officials continued to hammer away at Japanese trade barriers. This time they listed 12 "critical" areas where Japan needed to improve access. These included nuclear-energy equipment, electrical machinery, chemicals, computers, paper and pulp, soda ash, forestry products, drugs, cosmetics, cigarettes, medical instruments and telecommunications equipment. They stressed the impediments of buy-Japanese practices and the difficulty of American firms participating in research and development projects sponsored by the Japanese government.

The U.S. delegates were told by the Japanese participants that the government was powerless to guide companies to use specific products. Japanese officials also said that foreign participation in R & D projects was possible if the companies had adequate research facilities in Japan and could provide research staff. A number of products, such as soda ash and paper and pulp,

they noted, were not subject to administrative guidance or cartel pressure, and methods to increase sales of these products should be discussed by the companies concerned. On the question of cigarette sales, the government said it would consider increasing the number of outlets for foreign brands, but maintained that discussions of how sales of American cigarettes could be boosted should be left to the Japan Tobacco and Salt Public Corporation and U.S. tobacco companies. In short, the Japanese negotiators presented an unyielding, determined defense against American demands.

Other items discussed included the difficulty of penetrating the Japanese financial market to raise capital for use abroad, and the United States was assured that the government no longer restricted investment transactions and was easing the limits on foreigners' issuance of yen-denominated bonds in Japan.

Bilateral Meetings: Washington In a series of talks with Washington officials and President Reagan at the end of March, Foreign Minister Sakurauchi was warned that the Congress was pushing for reciprocity legislation, encouraged by the growing protectionist mood in the United States and Europe. The trade issue dominated the talks which, once again, made it clear that while the White House appreciated Japan's efforts to cut tariffs and resolve nontariff barriers, the American economy was in trouble and that the climate of U.S.-Japan relations might affect the mood of the Paris summit talks in June. The President himself pointed out the significance of further Japanese government action on market-access problems in view of the approaching meeting.

Mr. Sakurauchi's pledge during the talks to "keep the Paris summit in mind," without making any firm promise on timing, was widely interpreted in the Japanese press to mean that Japan was under pressure to offer a new and substantial market-access policy before the June date and that the United States and the EC might coordinate action to achieve that goal. The U.S. government was well aware in making this point that having Japan singled out for criticism at summit meetings was an anathema to the Japanese and a useful pressure point in negotiations.

During the Sakurauchi visit, USTR presented a 14-point market-access list including liberalization of oranges and citrus juices, beef and leather, and expansion of quotas on fishery products; increased imports of soda ash, paper, pulp and tobacco; changes in standards and inspection; participation in Japanese computer technology development; and increased access in services. Although this list was considerably shorter than the one presented the previous November, none of the demands was new, and much of it repeated the early March demands made at the meetings in Tokyo.

TFC The next round of major discussions came at an April 21-22 meeting of the U.S.-Japan Trade Facilitation Committee's (TFC) Executive Council. The TFC was begun in 1977 to bring Commerce and Ministry of International Trade and Industry (MITI) officials together to address specific trade complaints and the Executive Council was added in 1981 by the Reagan administration to raise participation to the undersecretary level.

During the meeting, the U.S. side, led by Undersecretary of Commerce for International Affairs Lionel Olmer, suggested measures that might be included in the trade-liberalization package being put together by the Japanese government (discussed in detail below). In addition to short-term steps to deal with quotas, tariffs and other traditional trade barriers, Mr. Olmer proposed that Japan consider formation of a high-level mechanism to promote foreign investment in the country. A longer-range program to study differences in industrial organization and business practices was discussed as well, with the American participants singling out administrative guidance, depressed-industry cartels and industry-targeting practices as presenting particular obstacles to U.S. exports.

Headed by Shoekei Kurihara, MITI's vice minister for international affairs, the Japanese delegation conveyed their government's readiness to allow representatives of foreign companies to participate in Japan's standards-writing process. The MITI representatives expressed again Japan's interest in buying Alaskan oil and steam coal from the western United States.

A more definitive outcome of the meeting was a firm decision to establish a new bilateral group to look for ways to cooperate on high-technology issues. Formation of the subcabinet-level panel, was first suggested by Japanese trade officials in January as one way to defuse mounting trade problems. American trade policymakers identified a number of issues they wanted the committee to tackle, including problems in industrial cooperation, the exclusion of foreign firms from participation in research and development projects underwritten by the Japanese government, the flow of patents and technology, and the market-access problems in Japan. For their part, Japanese trade representatives wanted the working group to study ways of promoting bilateral research and development cooperation in high-technology areas. The new committee was to have recommendations ready by the fall.

May Package

Faced with the continued heavy pressure from the administration's rising fear over protectionist legislation in Congress, and the threat of criticism at the upcoming industrial nation summit, the Japanese government set about assembling a second package of unilateral concessions. These were announced on May 27.

Development The decision to proceed in this direction was first enunciated in the wake of Mr. Esaki's rather unsuccessful mission to Washington. As the result of discussions back in Tokyo following his return, Prime Minister Suzuki announced that Japan would not take the initiative in proposing a "New Tokyo Round" of GATT negotiations, but would proceed with work on unilateral trade liberalization measures to be announced by May. MITI Minister Shintaro Abe recommended that Japan draw up a comprehensive package on market access to defuse foreign criticism before the Paris summit talks in June, and LDP Secretary Susumu Nikaido launched a "New Tokyo Round" suggestion, but the Prime Minister preferred that new measures be introduced one by one, based on consultations beginning March 30 with Foreign Minister Yoshio Sakurauchi and Mr. Esaki. In the end, the concessions emerged as a comprehensive package.

What proved to be the main problem in Tokyo in devising the new package was agriculture. Before the working-level discussions on agricultural products in Washington April 12-13, the Japanese government was willing to consider an expansion of import quotas on oranges and beef as well as a liberalized policy on agricultural products in the second-round package. But

after Washington announced that it would address the GATT on farm and fishery products under Article 22, Ministry of Agriculture, Forestry and Fisheries (MAFF) officials assumed that the issue of import restrictions on agricultural products would not be included in the forthcoming package.

Contrary to the Japanese assumption, however, officials of the U.S. Trade Representative's office delivered a list of American demands on agricultural exports to the Japanese embassy in April. The new proposal called for lower tariffs on peanuts, peanut butter, citrus juice, tomato ketchup, pineapples and similar products, as well as improved import procedures for pineapples, peanuts and other items, and expanded quotas for imports of noncitrus fruit juices, such as tomato and apple juice.

Disconcerted by the USTR list, MITI Minister Abe told Vice President Bush on April 24 in Tokyo that the complete package of concessions would be delayed if the United States insisted on the inclusion of agricultural products. With the June date for the eighth economic summit at Versailles rapidly approaching, the Japanese government wanted to reach a decision quickly.

This issue of what would be included in the package caused deep splits among policy makers in Japan. On one side was the agricultural sector, led by MAFF and its supporters in the LDP. And on the other side were the opposition parties and the business community, backed by the Ministry of International Trade and Industry. Officials in such agricultural associations as the Central Union of Farmers' Cooperatives wanted to hold out for continued restrictions on agricultural imports, and protested to their representatives in Tokyo. An agricultural committee of the LDP, for example, submitted a resolution to retain protection of agricultural products and continue necessary quotas. In the lower house of the Diet, the resolution passed without a dissenting voice from the ruling LDP or from the opposition.

For the business community, however, the protectionist sentiments of Japan's trading partners dictated a different response. Keidanren (the Federation of Economic Organizations) moved into the fray with a tough statement on April 28, recommending that the Japanese government take drastic steps to correct the market-access issue. It called for the immediate liberalization of the 27 residual import restrictions, and on items which were not to be liberalized immediately, urged the expansion of quotas and the adoption of a timetable for their complete removal. On tobacco imports, it suggested that foreign and domestic tobacco products be treated identically. The Keidanren proposal even favored fairly strong action on industrial products, recommending that tariffs on high technology products including computers, semiconductors and machine tools, and on symbolic products such as chocolate, whiskey, wine and tobacco be lowered unilaterally or reciprocally.

Conflict on agriculture was serious enough to postpone completion of the package. Originally scheduled to be announced on May 7, it was repeatedly delayed during the month as the pressures on what agricultural concessions to make played out.

Content The second market-access package was finally announced on May 17, just one week prior to the Versailles summit meeting. Taking a similar kind of approach as in January, it included a wide ranging set of tariff reductions and a variety of nontariff barrier actions.

On the tariff side, rates were to be reduced or eliminated on a total of 198 industrial and 17 agricultural products, effective April 1, 1983. Tariffs were to be completely eliminated on 96 industrial products, including machine tools, watches, boilers, air conditioning equipment, refrigerators, TVs, and electric generators. By April 1983, this would bring the number of industrial products that entered Japan duty-free to about 550.

Rates on another 102 items, which included computers, nuclear reactors, telecommunications equipment and medical and diagnostic instruments were to be reduced on an accelerated schedule. The 7-percent tariff rate on computers and 8.7 percent on computer parts was to be reduced to a unified 4.9 percent, and duties on computer peripherals to 6 percent.

The government agreed to reduce tariff rates two years ahead of schedule on certain other industrial products (automotive tires, catalytic agents and steel) to levels below the rates agreed upon under the Tokyo Round of multilateral trade negotiations. In addition, some 36 articles, such as lighters, eyeglass frames and ballpoint pens, would no longer be subject to a surcharge. This reduced average duties on the 198 industrial items from 6.2 percent to 3 percent, and brought the average tariff rates on all industrial products (excluding oil) to 3.27 percent when implemented in 1983.

Based on an agreement with the U.S. government reached in a last-minute working level meeting May 24-25, Japan included reduced duties on 17 agricultural products including turkey meat, herring roe, chocolate, cookies, lemon and limes. Also announced were measures to increase import quotas on four of the 22 restricted agricultural products—herring, luncheon meats, high-grade molasses and canned pineapple. The rather limited concessions on agriculture, and the total lack of action on any of the major agricultural products in which the United States was the most interested, though, reflected the intense opposition from agricultural interests voiced during April and May. In the short time period self-imposed by the Japanese government in order to clear the way for a smooth summit meeting, it was simply not possible to offer more on agriculture in the package.

A major feature of the nontariff items in the package was an increase in the number of retailers handling imported tobacco products from 20,000 to 70,000 over the next three years, with the ceiling to be completely lifted by FY 1985. In addition, improvements in the distribution system were to be effected by the government, which intended to make use of the services of business consultants as intermediaries to provide foreign firms with information relevant to their operation in Japan. As for services trade, the package outlined a liberalized policy including participation in the formulation of international rules for trade in services under the GATT, and equal treatment to foreign entities in the financial sector in Japan. The process of setting product standards and testing procedures was also to be altered by allowing foreign manufacturers to participate.

Reaction This second package of unilateral concessions was received much more favorably in Washington than was the January package. It did accomplish its aim of keeping criticism of Japan's trade policies out of the Versailles summit meeting. The public reaction of U.S. government officials was that Tokyo deserved credit for

making an effort in good faith to offer concessions, and that the Japanese government should be given some time to implement the promises made in January and May. Thus, there was a conscious decision made to ease up on the pressure directed against Japan for the next several months. As a result, the summer passed without any strong criticism of Japan's import barriers.

Despite the favorable public reaction, many Reagan administration officials were much less happy in private. The May package was subject to many of the same faults as the January one—vagueness, avoidance of major problems, inclusion of old concessions, and presentation of cosmetic or superficial measures. Given these doubts about the package, it is not surprising that pressure on Japan mounted once again in the fall.

Fall Pressure

With the arrival of fall, the U.S. government began increasing its pressure on Japan once more. In October MITI Minister Abe met with key trade officials in Washington. The talks were not negotiations *per se*, but rather a discussion concerning Tokyo's efforts to implement its two successive trade liberalization packages. In a meeting with Trade Representative Brock, Mr. Abe backed many of the U.S. goals for the November GATT ministerial meeting, particularly the need to address the safeguards code, and incorporate trade in services, high-technology products and agricultural goods within the GATT framework.

On the sensitive issue of the liberalization packages, the MITI minister pointed out that poor business conditions in Japan, and not trade barriers affected the volume of U.S. exports. He also referred to a statement by Prime Minister Suzuki concerning the flexibility of the ombudsman's office in resolving problems encountered by U.S. businesses trying to crack the Japanese market.

To deal with the implementation question, bilateral meetings took place on almost a monthly basis. This seemed to yield few results, so the Reagan administration began to step up the rhetorical heat to such an extent that relations between the two governments worsened again. American frustration mounted visibly after a third unproductive meeting of working-level government representatives on implementation was held in late October. Afterward, a U.S. official warned that impatience with Japan on trade issues had reached a "critical point." Earlier, bilateral talks on decontrol of beef and citrus quotas and elimination of the tariff on cigarettes had ended in an impasse (discussed separately below). Although a spokesman said the administration was "intensely" studying the options for retaliation against Japan, it was not clear what countermoves were under active consideration, and the administration was already on record as opposing domestic-content legislation.

For their part, Japanese government officials, worried about where the increase in U.S. rhetorical pressure would lead, continued to maintain that they were willing to negotiate. After the third round of follow-up talks on the market-access package, though, a spokesman said while Japan appreciated the political realities of the United States, the converse did not seem true.

USTR Report Finally, in mid-November, USTR released a study that was billed as identifying the full array of Japanese regulations, practices and procedures that limited the inflow of goods, services and investment from the United States, whether by design or unintentionally.

The list, prepared for Congress by USTR, included a by now familiar inventory of barriers that resulted from Japanese government import policies: high tariffs on wood products, tobacco products and a number of other products of significant interest to U.S. exporters; quantitative import restrictions on 27 groups of commodities or products, especially beef, citrus and leather, and the lack of transparency in administering these quotas; informal controls on imports of petroleum products, naptha and feed grains and tariff quotas for several agricultural commodities; and time-consuming customs-clearance procedures, particularly the need to obtain import approval from other Japanese government agencies before Customs could start its clearance process. The list also contained the well-documented impediments to trade created by Japan's restrictive standards and approval procedures as well as the buy-Japanese procurement policies of certain government agencies, and the problems created by state trading in tobacco products, food grains and data-processing and telecommunications services.

What differentiated USTR's catalog of government-created barriers from other listings was that it explored the impact of Japanese government regulatory and industrial policies on trade in goods and services and investment. In the regulatory area, USTR identified cartels or cartel-like behavior as one possible obstacle to the free flow of trade and investment, but admitted that the effect of these activities on imports was probably limited.

USTR also found that foreign securities firms and commercial banks were now treated like domestic institutions in Japanese regulations. Where regulator actions did affect market access, the report believed, was in the area of licensing American insurance firms to do business in Japan ("an unnecessarily lengthy and complex process") and in the field of foreign investment ("very little transparency to the investment screening process"). USTR pointed out in addition that the ability of foreign borrowers to obtain yen financing in the Japanese market, both through the commercial banking system and the bond market, was limited because of administrative controls.

Also in the report was discussion of the consequences of Japanese industrial policy on trade and investment, picking up on a theme that would dominate Washington discussions in 1983. USTR readily acknowledged that the policy tools adopted by Japan's government to foster the growth of strategically important industries were not devised specifically to restrict or exclude foreign participation in the Japanese market, but it argued that limited market access was the potential multiplier effect of the combination of industry targeting, government-sponsored cooperative research and development programs, and administrative guidance.

In addition to these government-imposed barriers, the report included an inventory of private-sector barriers to trade. Here the report went beyond the usually cited obstacles inherent in the buy-national attitude of large numbers of Japanese importers, distributors and end users and the complex Japanese distribution system, to address the several ways in which conglomerate groupings of firms *(keiretsu)* were thought to act effectively as brakes on the free flow of goods and services into Japan.

The tone of the report was moderate throughout, and the Japanese gov-

ernment was given credit where due for taking steps to facilitate market access for foreign goods, services and investment. In releasing the catalog of Japanese barriers, however, Deputy USTR Macdonald charged that the Japanese government had not lived up to its commitments to liberalize access to the economy. "Neither the letter not the spirit of the May 28 liberalization measures has been accomplished," he stated. The constituency for free trade had almost totally eroded in the United States, Mr. Macdonald warned, adding that it could be rebuilt only if the Japanese government moved quickly on the market-access front.

Yearend Status With the USTR report and Macdonald's strong warning with its release setting the scene, the administration kept up its campaign. In an interview with a group of reporters on November 22, Secretary of Commerce Baldrige warned the Japanese government that unless significant progress was made in opening Japan's market to American exporters within the next six months, the Reagan administration would have to re-evaluate its opposition to retaliatory legislation. Momentum was already building within the administration to either tacitly support one of the bills before Congress to restrict imports from Japan or recommend its own legislation, the Commerce Secretary said, adding that Japan was mistaken in believing that the United States was a "paper tiger" that would threaten protectionist steps but would not actually take them. Although he criticized domestic-content legislation as a "second-rate approach," Mr. Baldrige declined to outline the type of broad-brush retaliatory action the administration might support in place of the limited tactics it had so far adopted.

These strong statements came out just as Japan was preparing for the LDP presidential election, which resulted in Mr. Nakasone becoming Prime Minister at the end of November. In this setting, Deputy USTR Macdonald underscored again the Reagan administration's exasperation with Japan's intransigence on trade issues at the fourth meeting of the U.S.-Japan trade subcommittee, held in Tokyo December 3 and 4. He asked the Japanese government to indicate by specified but undisclosed dates how it intended to respond on a long list of U.S.-identified market-access problems. Japan's answers would have a significant impact on the administration's trade-policy direction, Mr. Macdonald cautioned Ryohei Murata, director general of the Ministry of Foreign Affairs' Economic Affairs Bureau and the top Japanese representative at the talks.

Undersecretary of State for Economic Affairs Allen Wallis delivered a similar message to Tokyo when he and other American subcabinet-level officials met with their Japanese counterparts December 6 and 7 to discuss bilateral and global economic issues. Following the two meetings, Prime Minister Nakasone told his Cabinet to come up with a new set of trade-liberalization measures before his planned visit to Washington in mid-January. Making the obligatory meeting with the President so early in his tenure as Prime Minister, Mr. Nakasone wanted to signal his government's basic stance of friendship with the United States. Granting yet another round of unilateral concessions was one way to make that demonstration and at the end of the year a preliminary announcement of further tariff cuts was made on December 25 and discussions were proceeding on other concessions that could be made.

High Technology Pact In the midst of this generally bleak landscape of pressure, criticism, concessions and antagonism, 1982 did bring at least a few positive developments. One of these was the U.S.-Japan working group on high technology issues set up during the spring. Right on schedule in November, the group presented its results.

The recommendations, ironed out in four sessions that were often contentious because of the different priorities the two sides brought to the discussions, were billed by negotiators from both countries as a first step in keeping high-technology issues from becoming a serious problem in bilateral relations. One proposal was to make Japanese subsidiaries of U.S. corporations and American units of Japanese firms eligible to participate in government-funded research and development projects. The exclusion of foreign companies from publicly funded R&D programs in Japan had long rankled American government and industry representatives, while Japanese companies with U.S.-based subsidiaries increasingly expressed interest in working on government-financed projects in the United States.

The working group also recommended that representatives of the two governments hold regular meetings to identify potential trade problems in the high-technology field and make proposals to defuse them. To facilitate the efforts, the working group suggested joint data-collection efforts, beginning with semiconductors. Figures on Japan's exports to the United States and U.S. imports from Japan were in fairly close agreement, but U.S. export data and Japanese import statistics showed a wide discrepancy in the value of semiconductor trade.

Implementing the recommendations of the working group hinged on approval by both governments, which was not completed in 1982. However, the working group and its recommendations certainly represented a positive step, and one that helped keep the tone of bilateral economic relations from being quite so bleak.

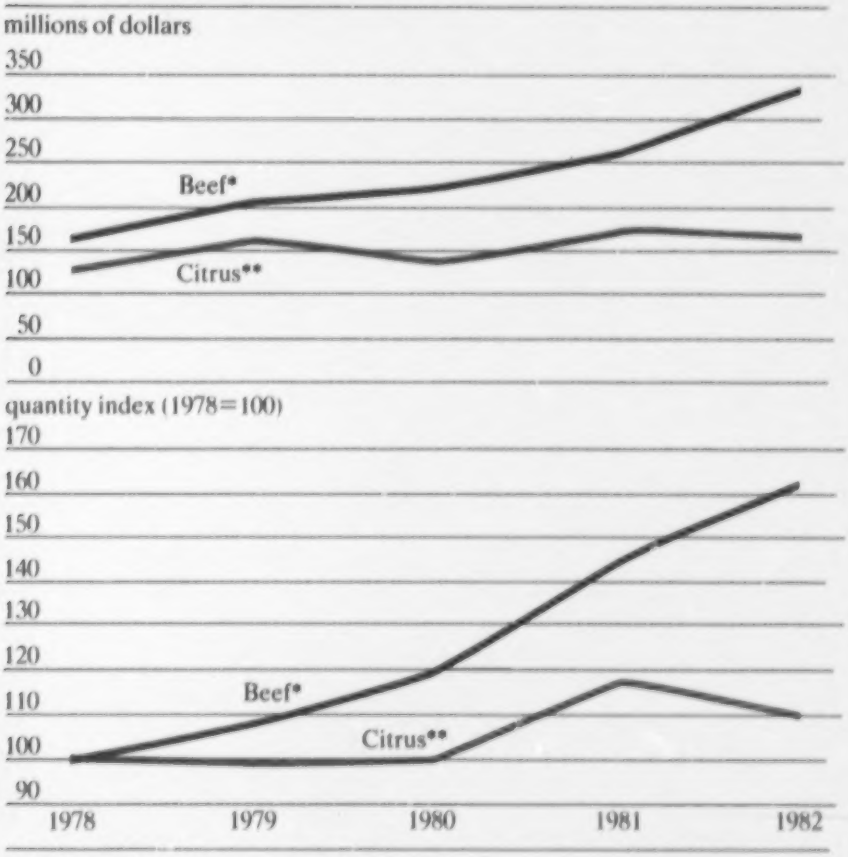
Agriculture on a Separate Track

From the time of the very limited progress on agricultural barriers in the May package of trade concessions, bilateral discussions on agriculture proceeded somewhat separately than other issues. In March the two sides agreed to talks on beef and citrus fruit to be held in October. Tobacco followed its own torturous route.

Beef and Citrus Preceding the October meeting, policy makers and interest groups on both sides lobbied for their positions. On September 14, Deputy USTR Macdonald reiterated U.S. goals on beef and citrus liberalization to the Senate Foreign Relations Committee. On the same day, Senators Lloyd Bentsen (D, Tex.) and John Danforth (R, Mo.) introduced resolutions demanding the liberalization of beef and orange imports. Earlier in September, the national headquarters of Japan's agricultural cooperatives *(Nokyo)* reported receiving letters from presidential aide Edwin Meese and officials of the Agricultural Department which criticized Japan's trade barriers and urged liberalization of beef and citrus import quotas.

In an effort to advance their own view, representatives from Nokyo visited the United States in mid-September to present their position to American executive and congressional leaders. Furthermore the LDP sent a representative from its agricultural trade committee to confer with USTR officials

U.S. Beef and Citrus Exports to Japan



*including offals **lemons, grapefruit and oranges

Source: U.S. Department of Agriculture

and congressional leaders. These efforts failed to dent the U.S. determination to press on with the move to win concessions.

Back in Japan, an effort was underway by interest groups to win domestic support. During the summer in Tokyo, there was a large-scale public relations campaign which proclaimed "No More Beef, No More Citrus." Japanese agricultural interest groups considered U.S. demands to be the first step to ward escalating penetration by American farm products. On the other hand, the business community in Japan was increasingly critical of the protection of the agricultural sector, on the grounds that it would not lead to more efficient and productive farming in the long run, and that it jeopardized Japan's access to foreign markets for manufactured products by fanning foreign discontent and protectionist forces. Moveover, it was agreed that costly government price-support programs limited the government's efforts to reduce the budget deficit.

Preparatory to the talks on import quotas, scheduled for October 20-22 in Hawaii, there were bilateral discussions in Washington on other issues. On September 30 and October 1, high-level consultations took place to exchange information and views on the supply-demand situation and trade outlook for the coming year for feed grains, soybeans and wheat – the major commodities in bilateral agricultural trade. On October 1, other discussions began on quotas on tomato juice, tomato ketchup and tomato sauce, fruit purees, non-citrus fruit juices (such as pineapple and grape juices), peanuts and dried peas and beans.

The main event, however, was to be Hawaii, where the bilateral discussions on liberalization of Japan's import quotas on beef, oranges and orange and grapefruit juices were to get underway. The first round of talks was quickly aborted; originally slated to last for three days, the talks were unexpectedly broken off the second day by the American delegation after Japanese negotiators rebuffed U.S. demand for import decontrol in 1984.

The collapse of the negotiations took Japanese participants by surprise. Hiroya Sano, director-general of the economic affairs bureau of the Ministry of Agriculture, Forestry and Fisheries, and other members of the Japanese team had come to Hawaii expecting the United States to take a hard line on beef and citrus import liberalization. They were caught off-guard, however, by the unwillingness of chief U.S. negotiator Donald Nelson, Assistant United States Trade Representative, to discuss any agricultural-trade issue other than beef and citrus decontrol.

In retrospect, the opening round of talks was doomed to failure from the outset. Japan's apparent strategy for the Hawaii talks was to try and steer the discussion away from beef and citrus by offering to increase the quotas on tomato juice and the other products that had been the subject of the October 1 meeting in Washington. That strategy angered the American side, and breaking off the talks was a calculated maneuver to impress upon the Japanese that the issue of beef and citrus had to be faced squarely and with flexibility if any progress was to be achieved.

No further talks took place on these issues during 1982 and the Japanese delegates returned to Tokyo publicly disgruntled over U.S. tactics. However, by December there were at least signs that future progress would be possible, as even the powerful agricultural lobby was beginning to lose its control over the issue in the face of the business sector's need to stave off protectionism in the United States. Yet another problem arising by the end of the year, though, was the upcoming elections in 1983, before which it ill behooved any politician to anger agricultural constituencies. Thus, 1982 ended with no progress on beef and citrus, but with at least some hope for movement in 1983.

Tobacco U.S. trade negotiators were very frustrated with what was viewed in Washington as very limited concessions on tobacco in the May liberalization package. They renewed demands for greater access to this market in October at a meeting of the bilateral tobacco products study group. This group had been scheduled to be formed

by the end of FY 1982 under the November 1980 U.S.-Japan tobacco products agreement, but Japan agreed to move up the inaugural meeting as part of its second set of market-access measures. Even though the May package expanded the number of retail outlets handling imported tobacco products, the U.S. side maintained that Japan's discriminatory pricing formula, particularly the high tariffs levied on imported cigarettes, were still in a major barrier.

When held at the end of October, the talks were unsuccessful in wringing further concessions from Japan. During two days of talks, U.S. negotiators renewed their call for the elimination of the 35-percent tariff on cigarettes. Once again, though, Japanese representatives rebuffed this request, arguing that the duty rate had already been cut from 90 percent. An American proposal that all retail outlets in Tokyo and Osaka interested in selling foreign cigarettes be given permission to do so by the end of 1982 met a similar fate. No further movement occurred on this issue by the end of the year.

Other Sectoral Issues

Outside the framework of the liberalization packages and the agricultural talks, certain other issues proceeded along independent paths that contributed, at least for a time, to the atmosphere of tension. Two major issues, civil aviation and the Medfly, were eventually solved during the course of the year.

Aviation No progress had been made on civil aviation issues since 1977 and prospects did not seem good coming into 1982 since negotiations had been broken off the previous November, followed by a series of reprisals and counter reprisals. At issue throughout was the conflict between the Japanese government's policy of regulating the number of authorized carriers on trans-Pacific routes, the number of flights, prices and the number of discount charter flights, and the U.S. policy of deregulating the airline industry.

U.S. negotiators had long insisted that the existing bilateral aviation pact granted the United States the right to designate additional carriers to Japan and required Japanese authorization of these carriers. Over the previous three years, however, Tokyo doggedly refused to accept the United Airlines application for landing rights.

In the summer of 1981, United tried to force some definitive action on its request by filing a suit with the U.S. Civil Aeronautics Board (CAB) requesting retalitory suspension of Japan Air Line's (JAL) Tokyo-Anchorage-New York route. The CAB was able to defer its decision of the case until December 15 (in hopes that both sides would resolve the issue during their talks), but the November stalemate left the agency with no other alternative but to act on the case. In a December 14 announcement, the CAB imposed certain sanctions on JAL (including an order to file schedules for all existing and proposed service), to which the Japanese responded in kind (including a freeze on pending "beyond right" requests and insistence on approval from Tokyo on all extra flight sections).

This mood of unyielding antagonism continued at bilateral aviation meetings held in Tokyo during January. Those meetings yielded nothing in the way of progress with respect to the accord, nor did they help to settle the United Airlines request for route rights from Seattle to Tokyo. The two sides did agree, however, to postpone implementation of the sanctions each imposed on the other in December. Darrell Trent, Deputy Secretary of Transportation, said that although the United States continued to have major problems with the Japanese positions on seven of the eight issues under negotiation (pricing, allocation of capacity, designation of carriers, access to airports, service points, and "beyond rights"), he saw "some limited reason to be optimistic." Discussion was to resume in March.

Washington, at that time, apparently leaked to the Japanese press a confidential memo from the CAB to the President recommending more severe sanctions against JAL operations in the United States in an effort to pressure Japan. The suggested reprisals included: (1) suspension of three of the seven regular weekly flights of JAL carriers between Osaka and Honolulu; and (2) elimination of four of JAL's 14 weekly flights between Tokyo and Los Angeles.

In the interval between the January and March meetings, both sides traded accusations. At a meeting in Washington of the International Aviation Club, CAB chairman Clinton D. McKinnon charged that Japan's refusal to allow United Airlines landing rights in Tokyo was a blatant violation of the bilateral treaty. In response to Tokyo's charge that the existing accord was grossly imbalanced in favor of the United States, he countered that, in fact, Japan Air Lines derived greater economic benefits from the existing arrangement than all the U.S. carriers combined. The Japanese rebutted Mr. McKinnon's accusations as "misleading." Tokyo remained adamant that the postwar pact was fundamentally inequal and contended that it was Washington's intent to permanently maintain this "one-sided" aviation relationship.

When March came, the talks yielded no agreement and opened the way for the sanctions announced the previous December to go into effect. In a statement following the collapse of the talks, JAL President Yasumoto Takagi was very pessimistic about the future of bilateral civil aviation relations, contending that U.S. demands would continue to be influenced by the poor financial condition of the U.S. airline industry. The U.S. view was that the longer this dispute continued, the more likely it was to be sucked into the general trade dispute between the two countries, and cited by critics of Japan as further evidence of Japan's unwillingness to allow greater access to its markets.

However, as the talks broke off, the U.S. team asked the Japanese to reconsider an American mini-package, a proposal aimed at facilitating agreement on some matters while leaving more contentious issues to later talks. Agreement was reported to be close on a number of points.

On June 4 an interim three-year agreement was finalized in yet another round of bargaining. This avoided the threatened mutual sanctions and restored relative peace to this long festering dispute. The provisional agreement effectively skirted the worst-case scenario by adopting a modified mini-package and committing both parties to reconvene by the end of 1983.

Deputy Secretary of Transportation Trent and Japanese officials managed to complete preparations for the new agreement just prior to the Versailles summit. The compromise package included the following provisions:

- Effective April 1, 1983, United Airlines would be permitted to operate seven round-trip flights a week between Seattle/Portland and Tokyo, and Japan Air Lines would be permitted to fly five round-trip flights a week between Tokyo and Seattle and/or Chicago.

- Effective immediately, the airlines of both countries would be permitted to operate 300 one-way charter flights a year. These charters would be able to operate under the rules of the country of origin.
- Continental/Air Micronesia would be permitted to start service between Guam-Saipan and Nagoya, Japan, effective April 1, 1983, and would initially be permitted up to seven round-trip flights a week.
- JAL would be permitted to pick up Los Angeles passengers on two flights per week flying "beyond" to Sao Paulo and/or Rio de Janeiro starting April 1, 1984.
- At a date to be agreed upon later by the two governments, JAL would be permitted to start operating two all-cargo flights per week to Chicago.

Some of the sticking points that were left for the future included: (1) Washington's demand to expand its rights to fly beyond Japan; (2) a similar demand by Tokyo for more rights to fly beyond the United States; (3) an agreement to lower fares for all trans-Pacific flights and a round-trip charter provision in line with U.S. deregulation policy; and (4) additional U.S. flights into Japan, which had been denied due to environmental and fuel transport problems at major Japanese airports.

U.S. negotiators consistently argued that American demands were in complete accord with the existing bilateral treaty. Their Japanese counterparts, however, insisted that bending to U.S. demands would exacerbate the inequities inherent in the treaty. In view of the unusually tense atmosphere in U.S.-Japan economic relations, both sides were anxious to effect an agreement so this issues would not become entwined in the trade debate raging on Capitol Hill. Thus, relations were maintained and service remained uninterrupted without achieving a settlement on these more fundamental points. While that implied future negotiations that could return to an antagonistic scenario, at least the rest of 1982 proceeded smoothly.

Medfly During 1981, the Japanese government had imposed strict import controls on certain fruits and vegetables coming from California because of the discovery of the Mediterrean fruit fly (Medfly) in certain parts of the state. While no one disputed Japan's decision not to accept produce from the federally designated infected areas of the state, problems arose over Japanese policies regarding produce from outside those areas, including the treatment required prior to shipment to Japan, and over the types of fruits and vegetables thought to be hosts to the Medfly.

By January there was some evidence that California was winning the war against the Medfly and U.S. government officials again pressed Japan to modify its policies. At a meeting of technical experts in Tokyo, the American side asked the Japanese government to recognize U.S. government standards and accept fruit and vegetables from outside the quarantine areas without special treatment. They also asked Japan to take lemons, strawberries and melons off the list of produce claimed by Japan to host the pest. No agreement was reached on lifting the fumigation requirements for produce outside the quarantine areas, but Japan did agree to waive the fumigation requirement for lemons, accepting the American position that lemons were not a host fruit.

Another concession made at these meetings was to allow fumigation by cold storage on board ship in transit to Japan. This change benefited exporters of oranges and grapefruit and helped to cope with the critical shortage of fumigation chambers in California. This also circumvented a dispute over the possible cancer-causing effects of etheylene dibromide (EDB), the only pesticide authorized to fumigate Japan-bound California shipments—and eliminated the need for an inspection for EDB residue levels in fruit upon arrival in Japan.

In April, further talks took place between plant experts to tackle once again the issue of fumigation of produce from outside the quarantine areas. Despite mounting evidence that the Medfly problem was all but solved, U.S. agriculture officials failed once again to persuade Japan to follow the federal government's regulations on domestic shipments of California fruits and vegetables. Japanese officials stuck to their position that the fumigation requirements would remain in effect until the federal government declared the Medfly to be eradicated.

The first major break came on May 25 when the Japanese government responded to the federal government's determination that the Medfly had been eliminated from Stanislaus and Los Angeles counties. Ministry of Agriculture, Forestry and Fisheries officials adhered to their earlier promise and reciprocated by lifting the requirement that California produce from outside the federally regulated quarantine areas be fumigated or cold treated. The ban on imports from four northern California counties remained in effect until the fall when the federal government declared those areas to be free of the Medfly too. This ended the Medfly problem.

Access to U.S. Markets

The issue of American access to Japanese markets was in many ways inextricably entwined with Japanese access to U.S. markets. This was not an overt, blunt relationship; no single act of American protectionism during the year was the direct or sole result of anger over lack of access to Japan. However, at a general level, the concept of reciprocity in trade gathered more interest in Congress and became a vehicle of tying the administration's focus on Japanese markets to the traditional congressional focus on U.S. markets. On other more specific issues, attitudes if not actual decisions on questions of Japanese access to U.S. markets were colored somewhat by the publicized tension over access in Japan.

As is evident in the previous section, the administration also used developments in Congress in its negotiations with Japan by giving signals that it would not oppose or would be unable to stop certain protectionist pieces of legislation were the Japanese to fail to provide further concessions on market access. This tactic had often been used before in Washington, and its previous use may have accounted for the sometimes slow response of Japan to American pressure (see Part II).

During 1982 Congress was the focal point of much of the activity on U.S. market-access policy. Throughout the year, Congress continued to express its interest and displeasure with Japan, both through general hearings and consideration of several pieces of protectionist legislation. While Japan was not always the target of protectionist sentiments, it was often in the forefront.

Reciprocity Legislation

With grim projections of future bilateral trade balances, rising unemployment, and continual statements from administration officials about Japan's "closed" market, congressional activity in the first half of 1982 focused on the concept of reciprocity. This was a variously defined concept under which a country's access to U.S. markets would depend on the degree of U.S. access in that country.

S. 2094 Of the 25 bills that were introduced in the Senate alone during the first half of the year, the one which had the most support was S. 2094, introduced by Senator John Danforth (R. Mo.). The momentum that propelled S. 2094 was a convergence of several factors:

- A growing awareness by the public and private sectors that the American market no longer afforded unlimited business expansion and that exports would be critical to economic recovery.
- The mounting realization that the Tokyo Round of trade negotiations was not a complete solution for the problems of the global trading system. The reduction of tariffs in accord with the reciprocity objective of the General Agreement on Tariffs and Trade (GATT), was in some instances countered by a number of sophisticated nontariff barriers designed to restrict market access of highly competitive products. The result was a belief in Congress that a "one-way trade relationship" with these countries contributed significantly to the United States' burgeoning merchandise trade deficit and deepened the recession. In view of Japan's lopsided trade account with the United States and the litany of American business complaints about its discriminatory import practices, Japan was often regarded as the prime offender. The evidence showed, however, that trade-restrictive practices were widespread and included Canada's foreign investment policies, the European Community's subsidized export credits for manufactured and agricultural goods, and the local-content and other performance requirements maintained by many of the newly industrializing countries (such as Brazil, Mexico and Korea).
- Increasing frustration among legislators that, although Section 301 of the Trade Act of 1974—the foreign unfair trade practices mechanism—had been on the books for eight years, there appeared to be a reluctance to exercise U.S. rights under international trade law. During the period of 1976-1981, for example, there had been only about 20 of these investigations.
- The realization that certain provisions of the GATT were inadequate for dealing with trade in services and foreign investment.

The basic thrust of S. 2094 was to establish the principle that U.S. access to foreign markets should be "substantially equivalent" to the access accorded by the United States. To implement this concept, the legislation would have amended Section 301 to make lack of substantially equivalent market access grounds for a complaint by an injured party or by the President or Congress. The bill also authorized the President to begin negotiations on an international code for investment flows and expanded his retaliatory authority with respect to barriers to services trade and investment. It further required the President to identify and measure on an annual basis the trade impact of foreign market obstacles on U.S. exports and investments, as well as propose actions necessary to secure elimination of such barriers or offset their economic impact.

Recognizing that congressional discontent with U.S. trade policy toward Japan had reached a dangerously high level, foreshadowing a protectionist spree, the administration stepped forward in late March to oppose existing reciprocity bills and proposed a compromise. USTR William Brock repeatedly stressed the White House view that additional legislation was not needed to enforce U.S. rights under the GATT.

Despite the general opposition of the White House, Ambassador Brock announced the administration would accept a proposal which included: a presidential mandate to negotiate international agreements in trade in services and investment; clarification of the inclusion of services and investment under Section 301; and additional negotiating tools, primarily a renewal of presidential authority under Section 124 of the 1974 Trade Act to make tariff cuts on a range of products including those in the competitive high-technology sector.

The White House remained adamantly opposed to the "substantially equivalent" language, contending that it would mean that the degree of market access in a country would be judged by the access accorded to imports in the U.S. market, rather than according to international standards. In short, such a provision might violate the GATT and invite foreign retaliation.

S. 2094 Amended After nearly three months of extensive consultations with administration officials and labor and business groups, the Senate Finance Committee approved an amended version of S. 2094 in June that was milder than the original version, but still crafted to strengthen existing trade statutes. Proponents had hoped this measure would give notice that the United States intended to challenge foreign trade-distorting practices. The compromise measure therefore sought to amend the Trade Act of 1974 in the following manner:

- The bill made a number of amendments to Sections 301 to 305. First, it amended Section 301 by specifically defining the terms "unreasonable, unjustifiable, and discriminatory," which had not been statutorily defined before. In particular, the term "unreasonable" was defined to include the "denial of fair and equitable market opportunities"—replacing the controversial "substantially equivalent market access" definition—and the denial of protection of industrial property rights. Second, it provided the President with the authority to propose legislation under so-called fast-track procedures (prohibiting amendments on the floors of either House) to retaliate against unfair trade practices in accordance with Section 301. Third, it redefined the term "commerce" in Section 301 to specifically include U.S. foreign direct investment. This would have given the President new authority to retaliate against restrictions on U.S. foreign direct investment. Fourth, it broadened the President's authority to retaliate against any product or service of a foreign country, regardless of the specific trade issue, and clarified the President's authority to impose fees or restrictions on the products or services of a foreign country, notwithstanding the prior actions of any independent regulatory agencies. Finally, the bill would have amended Section 302 of the Trade Act to allow USTR to initiate 301 investigations and delay the required international consultations for

up to 90 days to permit better preparation. Deleted from the original measure was a provision that would have authorized Congress to initiate an unfair trade practices case.

- The compromise Senate Finance Committee measure also amended Section 104 by authorizing the President to negotiate reductions in barriers to trade in services and high-technology products and the elimination of foreign restrictions on U.S. direct investments.
- It added a new section to the Trade Act requiring a study and report with annual updates on significant barriers to exports of U.S. goods and services and restrictions on U.S. foreign direct investment. The U.S. Trade Representative would also have been required to consult with the Finance and Ways and Means Committees concerning "trade policy priorities."
- It amended Section 135 of the Trade Act to provide for the establishment of an intergovernmental policy advisory committee to consult with federal and state governments on trade policy matters which affect them.

House Action The House companion to S. 2094 (H.R. 6773) had approximately six committee referrals, which effectively doomed its prospects for passage during 1982. Moreover, H.R. 6773 did not appear to have broad-based support in this chamber, where members were advocating far more protectionist alternatives, such as Rep. Fred Richmond's (D, N.Y.) bill, H.R. 5614, which would have required strict sector-by-sector reciprocity with Japan, or Rep. Richard Schulze's (R, Pa.) H.R. 5616, which would have shifted the tariff rates applied to Japanese imports out of the most-favored-nation category, or Rep. Richard Ottinger's (D, N.Y.) measure, H.R. 5133, dealing with domestic content in automobiles (discussed below).

Since some of S. 2094's provisions could have been construed as revenue-raising measures, which according to the Constitution must originate in the House, Senator Danforth appended his bill to H.R. 4566, a miscellaneous tariff bill already passed by the House. This procedural tactic was hoped to increase the chances of getting the bill through while at the same time circumventing the committee quagmire in the House. Just prior to the election recess, Senator Danforth tried unsuccessfully to have H.R. 4566 considered on the Senate floor. During the lame-duck session following the election, he tried again to have H.R. 4566 considered on the Senate floor, and was again unsuccessful, ending activity on reciprocity for the year.

Local Content Legislation

The reciprocity movement appeared to subside by the summer as members, faced with rising unemployment and uncertain economic recovery, geared up for the mid-term elections. All of the foreward motion in S. 2094, as described above, was accomplished prior to the summer. Japan's two trade-liberalization packages, discussed earlier in Part VI, probably did more to incense legislators than reassure them. Although it was conceded that the trade packages were a start in opening the Japanese market to more U.S. goods and services, the prevailing view in both Houses was that the measures did not go far enough in rectifying the gross inequities in bilateral trade and implied a lack of commitment on the part of the Japanese government. The breakdown of the October bilateral agricultural talks furthered this view. Measures more dramatic than the administration-backed reciprocity legislation were perceived by Congress to be needed to prove to Tokyo that the United States would insist on fair trade practices from its partners.

H.R. 5133 By the time congressmen returned from their August recess, Rep. Ottinger's domestic-content proposal (H.R. 5133)—a bill that was not given much chance of passing when it was originally introduced—had garnered the support of well over half of the house and, with the United Auto Workers (UAW) union lobbying, had breezed through the House Energy and Commerce Committee and was ready for floor action.

As originally drafted, H.R. 5133 mandated minimum levels of domestic parts and labor for cars sold in the United States. Phased in over a three-year period beginning in 1983, the Ottinger bill would have applied to all automobile manufacturers with annual sales in the United States exceeding 100,000 units. In 1983, a foreign exporter selling at least 100,000 units would have had to meet an 8.3-percent requirement; an exporter selling 500,000 units and over would have had to meet a 30-percent requirement. These requirements were to apply also to domestic manufacturers. By 1985, these figures would have increased to 25 percent for the 100,000-unit seller and an outlandish 90-percent for the largest suppliers.

In reporting the bill, the House Energy and Commerce Committee retained essentially the same structure as the original Ottinger proposal, but made some key changes. First, a company's "domestic-content ratio" was to be calculated by an expanded definition of its domestic costs. (The original bill included only parts and labor, while the new language included as well depreciation, taxes, interest and utilities.)

Second, the new bill had a lower schedule of content ratios. The revised schedule divided a company's sales by 10,000 to obtain the applicable domestic-content requirement, so that sales of 150,001 vehicles would have entailed 15.0001-percent content (down from 50 percent in the original bill), sales of 500,001 would have entailed 50.0001-percent (down from 90-percent), and 90-percent content would be attained at sales of 900,000 or more units. The dates of the three-year phase-in period were also revised to take effect beginning in model year 1984.

Third, this new version had a new penalty provision. Under the old language, if a company failed to meet its domestic-content standards, its imports would be reduced the next year by 25 percent. The new bill stipulated that a violator's imports would be cut back by the same percentage as it had fallen short of the content requirement.

CBO Report After the local content bill was modified, Rep. Sam Gibbons (D, Fla.) requested sequential referral of the legislation to the House Ways and Means Trade Subcommittee. Prior to extensive hearings (considered below), he also asked the Congressional Budget Office (CBO) and Congressional Research Service to assess the macroeconomic effects of the legislation.

In its study, the CBO concluded that any benefits that would accrue to the U.S. automotive industry could be more than offset by the costs to the economy. First, the implied restrictions on auto imports would be in violation of the General Agreement on Tariffs and Trade, and would invite GATT-sanctioned retaliatory trade measures by U.S. trading partners. Such measures would also raise domestic auto prices

and the overall rate of inflation and would depress long-term growth by misallocating scarce economic resources, the CBO observed. Second, the study indicated that, contrary to expectations, there would be little transfer of foreign production facilities to the United States. The requirements, in fact, demanded not only the relocation of assembly, stamping, engine and transmission facilities to the United States, but also the purchase of substantial amounts of domestically produced parts and materials. But because foreign makers would probably lose the cost advantages they previously enjoyed, the CBO contended, "no sizable shift of foreign production facilities to the United States would likely occur."

Concerning the employment-generating aspects of the bill, the CBO study pointed out that the UAW's previously published figure of 868,000 jobs (compared with its own 211,000 figure) vastly overstated the likely increase because:

- It exaggerated the marginal impact on employment associated with the sale of an additional domestically produced subcompact.
- The base employment figure upon which the UAW estimate was built was about 8 percent too high since it included 37,100 workers employed in the manufacture of truck and bus bodies, plus 25,800 workers who manufactured truck trailers.
- The UAW implicitly assumed that H.R. 5133 would not increase prices and would not alter the total number of cars sold (CBO estimates, as noted above, anticipated that price increases would curtail demand).

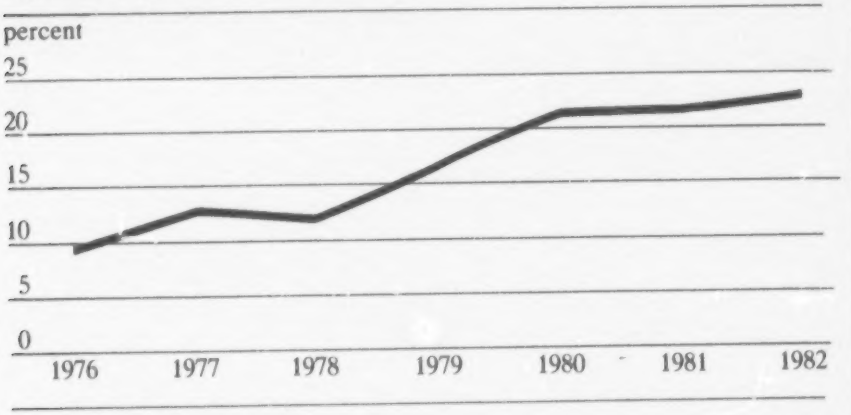
The study concluded that even "if foreign trade retaliation was not extensive, [H.R. 5133] represents a poor substitute for conventional macroeconomic policies . . . [since] the positive employment and economic growth effects that could result from [the bill] could be achieved better, with less costs and fewer risks, by the adoption of somewhat more expansionary U.S. monetary and fiscal policies".

CRS Report CRS's study echoed many of the same conclusions; including the position that the long-term effects of domestic-content legislation were deleterious to the U.S. economy. CRS acknowledged that U.S. employment, domestic sourcing, profits and sales of U.S.-produced autos would no doubt increase in the short-term, since imports would be curtailed. However, higher costs and prices, a worsening of the U.S. competitive position in world markets and lower profits of U.S. auto manufacturers would probably occur in the long-term because:

- Domestic sourcing would be more expensive than foreign sourcing.
- U.S. costs of production were greater than those in Japan, causing the price of Japanese cars to rise as production shifted to the United States.
- Any restriction to free trade would reduce economic efficiency and ultimately result in a less efficient allocation of resources.

The CRS concurred that H.R. 5133 would probably violate the GATT, and also observed that in the long run, assuming fewer U.S.-produced autos were sold because the United States would become less competitive in world markets, domestic tax revenues would decrease, unemployment expenditures would increase, the U.S. trade (and current account) balance would worsen, and the U.S. dollar would depreciate relative to foreign currencies. Moreover, other countries might retaliate, with adverse consequences to U.S. industries, CRS warned.

Japanese Share of U.S. Auto Market



Source: Automotive News

Debate A handful of liberal trade advocates on the House Ways and Means Committee charged that the modifications made to H.R. 5133 were merely cosmetic changes that did nothing to improve what was still a highly protectionist measure. Ways and Means Trade Subcommittee chairman Sam Gibbons (D, Fla.) braked its progress to the floor before the election recess by holding an exhaustive set of hearings in late September to consider views from congressional proponents and labor, key administration trade officials, business representatives, export-import executives, and chief U.S. automotive makers. However, because this was a "sequential referral," which stipulated how long a committee could review a measure, the subcommittee could not hold the bill and was forced to report it before recessing.

During the seven days of hearings, the subcommittee called on speakers from Congress, organized labor, key administration trade officials, business representatives, export-import executives and the principal U.S. automotive makers. Administration policymakers vehemently opposed H.R.5133.

U.S. Trade Representative Brock maintained that passage of this legislation would up the costs of domestic production to the extent that the American consumer could ultimately pay $5 billion more for U.S.-produced cars. Moreover, disputing labor's contention that it was a pro-jobs, pro-investment measure, he said that foreign investors such as Honda Motor Co., Ltd. and Nissan Motor Co., Ltd. would be forced to close down their U.S. operations because of the stringency of the domestic-content requirements.

Ambassador Brock also warned that enactment would spark retaliation in the trade sectors where the United States was the most competitive—agriculture, electronics, computers and services. In a tense exchange with domestic-content proponent William Brodhead (D, Mich.), who demanded to know why "if protectionism works

for the Japanese, [it] wouldn't . . . work for us," Ambassador Brock responded that in order for the United States to achieve its trade-liberalization goals at the November GATT meeting it had to rise above the protectionist clamor.

At the same hearings, both New York Democrat Richard Ottinger, the bill's chief sponsor, and UAW president Douglas Fraser (whose organization was largely responsible for raising congressional interest in this bill) testified. Rep. Ottinger refuted administration's contentions that enactment of his bill would result in more expensive U.S.-produced autos, and argued that Japanese retaliation would be unsuccessful because the United States could surpass their challenge by raising its trade barriers even higher. Mr. Fraser echoed these sentiments, charging that the United States "has been too timid with the Japanese [who] play games with us: easy promises, slow implementation, and procrastination." The UAW president also attacked the conclusions of the Congressional Budget Office, contending that they were based on the incorrect assumption that there would be less price competition among automotive makers with enactment of the measure, rather than more.

It was significant that none of the U.S. auto manufacturers were enamoured with the Ottinger bill. Philip Caldwell, chairman of Ford Motor Co., called the domestic-content legislation a "last resort" should the following measures fail to revitalize the U.S. auto industry: expanded Japanese investment in U.S. facilities, voluntary export restraints on automobiles, revision of the GATT's discriminatory treatment of taxes and adjustment of the yen-dollar exchange rate.

Philip Hutchinson of Volkswagen of America Inc. was no more enthusiastic about H.R. 5133, contending that the legislation would "build a wall around (the United States and inhibit our efforts) to compete with the Japanese or other manufacturers." He added that Volkswagen, despite facilities in Pennsylvania, West Virginia and Texas, would nevertheless "marginally exceed" the requirements as spelled out in the Ottinger bill.

Business organizations, too, uniformly opposed H.R. 5133, contending it had broad and dangerous implications for U.S. exporters and the U.S. economy. Both the National Association of Manufacturers (NAM) and the Emergency Committee for America Trade (ECAT) favored enactment of the reciprocity legislation as an alternative to the Ottinger bill, arguing that it would allow a response to unfair trade practices within the framework of the GATT.

A final issue that came up during the hearings was to what extent the yen was undervalued and thereby contributing to this problem as well as other import problems. Administration officials vigorously denied that the Japanese government was trying to push the value of the yen down (see Part III on the yen-dollar market).

House Passage H.R. 5133 finally passed the House on December 15 despite the critical CBO report and the administration's efforts to oppose it. No action, however, took place on the Senate companion bill, S. 2300, so that the measure still fell far short of becoming law. Still, the bill progressed farther than the more mild reciprocity legislation that had been considered in the first half of the year and local content backers promised to reintroduce the bill in 1983.

In Japan, the House passage of the local content measure was taken very seriously. It came just at the point when Prime Minister Nakasone had entered office and was beginning to establish his government's position on bilateral economic issues in advance of his planned visit to Washington in January. This timing thus added to the pressure within the Japanese government to produce another round of unilateral trade concessions in advance of the state visit. Since the measure was aimed entirely at the Japanese auto manufacturers whose only fault was success in the American market, the passage of the bill also added to Japanese resentment of U.S. policy and increased the conviction that the United States was a declining industrial power.

Other Protectionist Measures in Congress

Congressional activity on protecting American manufacturers from imports was not confined to the reciprocity and local content bills, although most of the other measures did not advance very far. The most important bill, which did actually become law, was the buy-American preference on federally funded highway construction.

Transportation Assistance Act of 1982 At the end of the legislative session in December, Congress passed the Transportation Assistance Act of 1982, which authorized more than $71 billion over the next four fiscal years for highway construction, road and bridge repair and mass transit modernization. The result of a bipartisan effort to repair the nation's crumbling transportation infrastructure and complete the Interstate Highway System as well as provide jobs to cope with rising unemployment, the legislation raised the gasoline tax by a nickel a gallon to partially fund these projects. It also introduced the strongest buy-American requirement of any recently enacted federal assistance program.

The proviso that steel, cement and other materials used in projects funded under the new law be American made was approved during the final hours of negotiations between House and Senate conferees. As originally passed by the House, the bill contained a broad by-national amendment introduced by Rep. Douglas Applegate (D, Ohio). The Senate, however, had rejected an even tougher preference amendment put forward by Senator John Heinz (R, Pa.), the head of the Senate Steel Caucus. In reconciling the differences in the two bills, the conferees bowed to the Pennsylvania Republican and adopted a weakened but still far-reaching version of his buy-American amendment.

The conference report, subsequently cleared by both chambers, gave domestic producers a 25-percent price preference on highway and bridge repair work and the same preference on materials for new interstate highway construction (meaning that bid prices on imports would have to be more than 25 percent below prices of domestic products in order to win a contract). For new purchases of rolling stock and related equipment for mass transit systems, American manufacturers received a 10-percent preference. In addition, at least 51 percent of the value of the components going into buses and rail cars had to be produced in the United States and final assembly of the equipment be done domestically.

How these preferences would actually be administered had to wait the issuance of implementing regulations by the Department of Transportation's Federal Highway Administration and Urban Mass Transportation Administration. The Surface Transportation Assistance Act of 1978, which mandated a 10-percent buy-American preference for materials used in federally funded highway and bridge construction pro-

jects, applied only to structural steel (shapes, plates, H piling and sheet piling), for example.

Japan was not the only country that would be affected by the new law, with others including Canadian cement producers, European steel manufacturers and both Canadian and European transportation equipment manufacturers. However, Japan certainly stood to be injured since it has supplied both steel and transportation equipment to the U.S. market, affecting a significant volume of trade. According to a Federal Highway Administration report prepared in the late 1970s, the value of steel in interstate and non-interstate primary roadways was 10.6 percent of total construction costs. With $53.6 billion authorized for fiscal 1983-1986 for completion of the Interstate Highway System and major highway and bridge repairs, up to $5.7 billion worth of foreign steel could be excluded from the bidding process.

Auto Quotas Although they were upstaged by the domestic-content furor, Michigan representatives also advanced auto-import quota legislation, which garnered comparatively little support. In the Senate, Donald Riegle (D, Mich.) introduced a bill (S. 2194) that would have reduced the level of Japanese auto imports to 14 percent of U.S. sales through 1985. Rep. John Dingell (D, Mich.), who was also one of the prime movers of the Ottinger domestic content bill, proposed a much stiffer alternative that would have limited auto imports for an indefinite period. Congressional sentiment was also strong for a third-year extension of Japan's voluntary car export restraints (discussed below).

Agriculture Members representing predominantly agricultural constituencies proposed several measures aimed at retaliating against Tokyo's retention of agricultural quotas, motivated by the notable lack of success in bilateral agriculture negotiations (discussed earlier in Part VI).

The Unfair Agricultural Trade Barrier Relief Act (H.R. 5860), introduced by Oklahoma Republican Douglas Bereuter, would have required the President to take remedial actions against Japan's agricultural quotas.

H.R. 6072, introduced by Rep. Tony Coelho (D, Calif.), would have penalized any agricultural trading partner that maintained quotas, employed licensing practices or subsidized exports.

H.R. 6423, Rep. Tom Hagedorn's (R, Minn.) proposal, was directed primarily at the European Community's Common Agricultural Policy and would have required the Executive to identify barriers to U.S. agricultural trade and report to Congress annually on actions underway to redress these unfair practices. It would also have made lack of equivalent access for U.S. agricultural exports grounds for initiating a trade complaint.

These proposals indicated an erosion of support in the agricultural community for a non-interventionist trade policy. They also demonstrated the very specific nature of reciprocity which some in Congress were contemplating, even though they received very little support during the 1982 legislative session.

Status of State Restrictions

Congress was not the only legislative body granting statutory protection to American manufacturers. While the federal government has control over all rules on international commerce, state governments play a role through regulations governing state purchases, and state-funded projects. JEI conducted a comprehensive survey of state buy-American restrictions during 1982. A table providing the details is included as Appendix A.

State Restrictions in 1982 At least 36 states limited the purchase of foreign-made products through buy-national legislation, regulations or informal policies as of 1982. Twenty-two states maintained statutory buy-American restrictions that ranged in scope from loosely worded laws directing purchasing agents to give preference to domestic products if other factors are equal (seven states) to laws prohibiting the purchase of specified goods from foreign manufacturers under virtually all circumstances (five states). Another 14 states had buy-national transportation department procurement requirements for highway and bridge construction or other restrictive administrative regulations and policies, while eight states had buy-national regulations or practices as well as buy-American legislation. States that gave preference to in-state bidders were excluded from the count since in-state preference laws discriminate equally against out-of-state vendors and foreign suppliers.

Limits on the use of foreign steel in highway and bridge construction or in all public-works projects had been the traditional target of most state buy-American laws and regulations. With 24 states in 1982 restricting purchases of imported steel products, especially structural steel, and another three imposing curbs on the use of all foreign construction materials, this was still true. In a new wrinkle, though, an increasing number of states prohibited the purchase of foreign-made motor vehicles, and many more undoubtedly made it a policy to buy only American-built cars and trucks.

Spread of Buy-American Practices A 1973 survey of state buy-national practices undertaken by the United States-Japan Trade Council (the former name of JEI) concluded that at least 23 states then had "substantial restrictions" on the purchase of foreign-made goods for public projects. Five years later the U.S. General Accounting Office found that 27 states limited the use of imported materials in public-works projects, either through buy-American laws or administrative procurement provisions. By 1982, 36 states at a minimum had restrictive purchasing policies.

Why did buy-national practices proliferate in the 1970s and early 1980s? The deteriorating condition of the American steel and automotive industries and the perceived role of imports in their decline unquestionably provided the primary spark. The 1977-78 downturn in the steel industry produced a spate of buy-American laws inspired and strongly backed by domestic steel mills. Five states—Indiana, Maryland, Ohio, Pennsylvania and West Virginia—passed legislation restricting the use of foreign steel in public-works projects during those two years. Rhode Island joined the list in 1979, and Minnesota and Wisconsin weighed in with statutes giving preference in procurement to American manufacturers in 1978 and 1979, respectively.

With the steel industry continuing to limp along and the auto industry suffering severely from a three-year sales slide, a second burst of state buy-national activity occurred in 1980 and 1981. New York and Virginia adopted laws limiting the purchase of imported steel for public-works projects, and Louisiana, New Jersey and New Mexico enacted buy-American requirements for motor vehicle purchases. In addition, Iowa added a preference provision to its statutes, and Kansas gave

the state purchasing agent the legal authority to reject bids based on the supply of foreign products. Interestingly, the buy-national laws of New Jersey, New York and Virginia had sunset clauses, inserted to make these protectionist measures more palatable to wavering legislators and governors.

Automobiles

Once again, automobiles were the dominant policy problem among sectoral issues, although perhaps not to the same degree as in 1980 and 1981. The congressional initiative, domestic content legislation, has already been detailed above, and it represented a new and disturbing wrinkle in the effort to reduce the flow of imported cars from Japan. Besides that congressional move, 1982 brought a continuation of the export restraints on Japanese auto shipments to the United States, continued depressed sales in the U.S. auto market as a whole and pressure in the fall for yet a third year of restraints.

Extension of Limit Bowing to political realities, the Ministry of International Trade and Industry (MITI) formally announced on March 29 that Japan's car shipments to the United States during the April 1982-March 1983 period would be held to FY 1981's level of 1.68 million units. The decision, widely anticipated, ended several months of skirmishing between Washington and Tokyo as well as between MITI and the Japanese auto industry over the level of U.S.-bound car exports during FY 1982.

Under the restraint arrangement worked out during the spring of 1981, car shipments during the second year of the agreement were to be 1.68 million units plus 16.5 percent of the growth forecast in 1982 American new-car demand. Citing numerous U.S. government and industry projections that placed 1982 sales of domestic and imported cars at about 9 million units, Japanese car makers maintained that the export ceiling for the April 1982-March 1983 period should be set at 1.76 million units. The government overruled the industry, however, in what MITI Minister Shintaro Abe candidly admitted was a political decision that took into account Japan's widespread trade problems with the United States and the continuing slump in the American auto industry.

U.S. government and industry reactions to the Japanese announcement echoed the responses given the previous year to Japan's initial decision to limit car shipments to the United States. Speaking for the Reagan administration, which had asked the Japanese government to keep the 1.68-million-unit ceiling on auto exports, USTR Brock praised Japan for acting "responsibly." Spokesmen for the American auto industry were more restrained in their response. Said General Motors Corporation, "We think the car and truck market will increase substantially next year, so this limitation seems to indicate a growing awareness on the part of the Japanese government of the increasing world trade tensions." Ford Motor Company chairman Philip Caldwell labeled the decision a "reasonable move" but noted that the export restraints had resulted in a higher U.S. market share for Japanese nameplates than anticipated.

Japan's motor vehicle manufacturers grudgingly accepted the government's decision with less of a struggle than in 1981. Because of the depressed state of the U.S. car market, the export curbs did not, in general, wreak the sales havoc that Japanese makers initially expected, as discussed below.

Japan's Market Share The initially optimistic sales forecasts for 1982, as represented by the General Motors statement, did not materialize. Neither the ceiling on Japan's car shipments to the United States nor rebates, credit-assistance programs and dealer incentives rescued American auto makers in 1982 from their worst sales performance since 1961 and the industry's fourth back-to-back sales contraction. Battered by the continuation of weak economic conditions and high interest rates, sales of domestically produced cars went down 7.2 percent to 5,756,660 units.

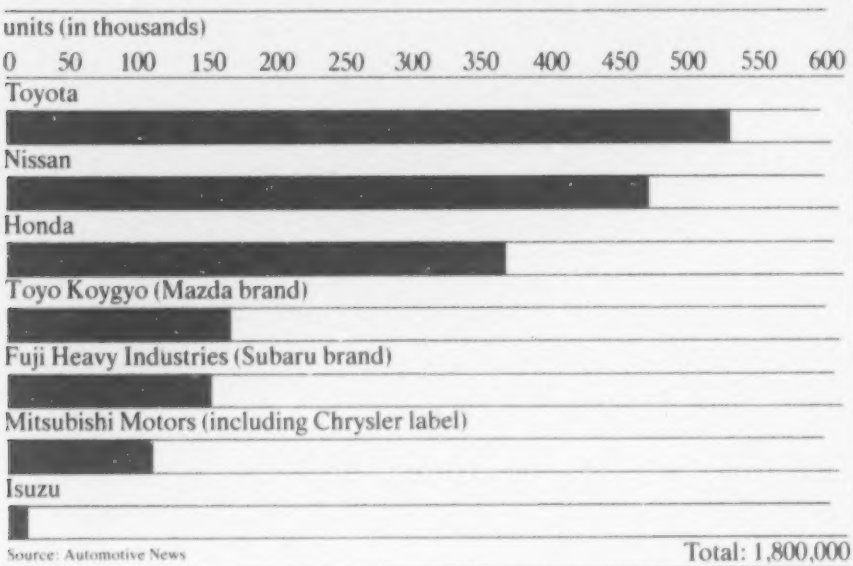
No manufacturer was able to buck the overall decline. General Motors Corp.'s sales of 3,515,660 vehicles were off 7.4 percent, while Ford Motor Co. retailed 1,345,698 cars, a drop of 2.5 percent. Chrysler Corp., the only American maker to boost sales in 1981, saw demand for its models fall again as retail deliveries went down 5.2 percent to 691,703 units. Hardest hit was Volkswagen of America Inc., which posted a stunning 43.9-percent decrease; American Motors Corp. did somewhat better, limiting its sales erosion to a 17.7-percent decline.

Imported cars were no more immune in 1982 to the sales effects of the economy and high interest rates than domestic makes. After withstanding the 1979-80 downturn in the U.S. market, sales of foreign-made cars slipped 2.9 percent in 1981 and an additional 4.5 percent in 1982 to 2,220,910 units. Still, imports continued to carve out an ever larger share of the shrinking American car market, topping their 1981 stake of 27.3 percent by half a percentage point. This offered some justification for maintaining the export restraint at 1.68 million units. Even at this level of restraint, in fact, domestic producers' greatest source of frustration was the further market inroads Japanese nameplates made in 1982. Although sales of cars imported from Japan fell 3.1 percent to 1,801,481 vehicles following a 1981 decrease of 2.6 percent, importers of Japanese makes upped their market penetration from 21.8 percent of total retail sales to 22.6 percent.

While importers of Japanese cars fared relatively better than domestic producers, 1982 was a difficult year for them since short supplies often cut into sales. Toyota Motor Co., Ltd., and Honda Motor Co., Ltd. dealers were stymied all year by stocks below a 30-day supply, half the desired level, and the results showed up in their bottom lines: an 8-percent sales drop for Toyota to 530,246 cars and a 1.3-percent dip for Honda to 365, 865 units. Inventories of Mazdas, made by Toyo Kogyo Co., Ltd., and Subarus, manufactured by Fuji Heavy Industries, Ltd., although not as low as Toyota and Honda stocks, were still lean enough to put a lid on sales. In contrast, supplies of Nissan Motor Co., Ltd.,-built Datsuns remained at or above the 60-day level throughout 1982, helping the number-two import to finish the year with a 1.2-percent sales gain to 470,246 cars—the only Japanese nameplate to do so. This evidence on inventories supports the contention that the export restraints did have an overall impact; in the absence of restraints, more Japanese autos would have been sold in the United States.

Small trucks presented a considerably different picture than automobiles, as American automotive manufacturers began to beat back their Japanese competitors in the U.S. compact pickup truck market—a market the Japanese developed and virtually monopolized during the 1970s. The tide turned in late 1981 and early 1982 when the Big Three introduced a line of domestically

Japanese Automobile Sales in the U.S. by Company 1982



Source: Automotive News Total: 1,800,000

designed and built small pickups with the biggest advertising budgets ever earmarked for new trucks. The promotional campaigns, which touted the larger size of U.S. compact pickups, their superior fuel economy and durability as well as their competitive sticker prices, hit home with the American truck buyer.

From just 59,506 units in 1981, retail deliveries of U.S.-manufactured small pickups soared to 359,178 units in 1982, paced by the Chevrolet S-10 (185,919 units) and the Ford Ranger (104,396 vehicles). This jump, plus a strong sales gain for vans and recreational vehicles, breathed some life into the slumping domestic-made truck market, overcoming a dip in conventional pickup truck sales and another big drop in medium and heavy-duty truck sales and pushing total sales of U.S.-made trucks up 18.7 percent to nearly 2.2 million units—the highest level since 1979 but still far below 1978's record.

The new competition did not seriously reduce the presence of Japanese manufacturers in the U.S. small pickup truck market. On the contrary, sales of Japanese nameplates declined only 7.2 percent in 1982 to 407,450 units. Moreover, all of this loss reflected reduced retail deliveries of captive imports—the LUV, built for General Motors Corp. by Isuzu Motors, Ltd., the Courier, manufactured by Toyo Kogyo Co., Ltd. for Ford Motor Co., and the Dodge D-50 and Plymouth Arrow, produced by Mitsubishi Motors Corp. for sale by Chrysler Corp. To boost their combined non-captive sales 11.6 percent to 312, 173 units, though, Toyota Motor Co., Ltd., Nissan Motor Co., Ltd. (Datsun), Toyo Kogyo (Mazda), Isuzu and new-to-the-market Mitsubishi had to adopt aggressive marketing tactics.

Sales incentives, first used extensively after the August 1980 hike in the duty on cab chassis added an average $800 to the sticker prices of Japanese-made pickups, became a fact of life for importers in 1982. These costly promotions helped raise Toyota pickup sales 4.9 percent to a record 144,308 units; sales of small Mazda trucks also went up, climbing 144.1 percent to 41,005 vehicles. Nissan was not so fortunate; sales of Datsun pickups fell 6.4 percent to 107,927 units.

Pressure for 1983 By autumn, auto industry and labor leaders were aware that 1982 auto sales would be very disappointing and that the restraints would leave Japanese makers with an undiminished share of the U.S. market. As a result, American automotive makers began lobbying not only for an extension of the two-year cap on Japan's car shipments to the United States, but also for an export ceiling below the 1.68-million-unit level.

U.S. Trade Representative Brock kicked off the campaign in late August when he told reporters during a private briefing that the Reagan administration believed a third year of export restraints would be necessary. The domestic industry quickly climbed on the bandwagon. Testifying before the House Ways and Means Trade Subcommittee on local-content legislation in September, the chairmen of General Motors Corp. and Ford Motor Co. argued for continued limits on Japan's car shipments, maintaining that export restraints would be less damaging to Japanese manufacturers than stiff domestic-content requirements.

This point on voluntary restraint *versus* domestic content was picked up by the Motor Vehicle Manufacturers Association in an October 1 letter to Ambassador Brock that emphasized the need for an extension of the export ceiling. Said the industry's trade association, ". . . voluntary restraints by the Japanese government will help eliminate the conditions that have led to the consideration of more drastic government protectionist measures." The clear connection drawn opened the question of to what extent congressional support of the measure (which passed the House, as described earlier in Part VI) was an effort to assure Japanese acquiesence to a third year of restraints rather than a genuine desire to see the legislation become law.

Under the restraint arrangement worked out in the spring of 1981, the third year of export restrictions was to be contingent on the Ministry of International Trade and Industry's assessment of the U.S. car market. While Japanese policymakers gave no hint of their intentions, as pressure began to build in the United States the government was expected to bow to political realities and extend the shipment ceiling for another year. Japan's car makers already appeared reconciled to a third year of export restraints.

Cooperative Action Not all of the news during 1982 on automobiles was of conflict and protection. As with many other industries that have preached protection in the past, American automotive manufacturers continued to maintain cooperative relationships with Japanese companies.

The most widely reported of these developments was the beginning of discussions between General Motors Corp. and Toyota Motor Co., Ltd. in March on the possibility of jointly producing a Toyota-designed small car in an unused GM assembly plant. News of the talks, which apparently were initiated by Toyota, elicited a skeptical reaction initially from U.S. automotive-

industry analysts, who noted the similarities between Toyota's discussions with GM and its earlier talks with Ford Motor Co. on a joint production venture in the United States, which had been finally broken off in 1981 because the two sides could not agree on what type of vehicle to build. However, the talks with GM continued for the rest of the year and progressed rather smoothly, leading to an agreement in 1983.

Mitsubishi Motors Corp. also began joint production discussions. Late in February, Mitsubishi approached Chrysler Corp. about the possibility of jointly producing a small car in the United States in the mid-1980s. The preliminary talks between the two motor vehicle companies were an outgrowth of the agreement they signed in September 1981, which mapped out a new framework for their often strained ten year-old relationship. That agreement gave Mitsubishi Motors the right to set up an independent distribution network in the United States, specified that Mitsubishi would provide technological assistance to Chrysler to help it boost productivity, and stated that Mitsubishi would cooperate in the development of new car models. However, there was no conclusive outcome from the talks during the year.

Later in the spring, General Motors Corp. decided to add a Japanese-made subcompact to its U.S. small-car lineup for the 1985 model year. The new front-wheel-drive car, which was expected to replace the top-selling but aging Chevette, was to be designed and manufactured by Isuzu Motors, in which GM had held a 34.2-percent stake since 1971. Isuzu was expected to initially turn out 300,000 of the ST subcompacts a year, with as much as two-thirds of this output going to GM for sale in the United States and Canada.

The sourcing arrangement with Isuzu allowed General Motors to expand its small-car offerings in the United States at only a fraction of what it would have cost to develop a Chevette replacement on its own. The automotive giant agreed to put up just under half of the estimated ¥100 billion ($402 million) needed to produce the ST car by buying $200 million worth of dollar-denominated Isuzu convertible debentures. When converted into Isuzu stock in six years, GM's interest in Isuzu would increase to approximately 42 percent.

Cost considerations also compelled GM to pursue a small-car deal with Suzuki Motor Co., another GM affiliate, which was expected to supply Chevrolet with a front-wheel drive mini car sometime during the 1984 model year. Suzuki's offering was to be smaller than the Chevette or the Isuzu subcompact.

Other Sectoral Issues

The broad pressures perceived in Washington concerning Japan's access to U.S. markets stemmed from the cummulative effects of many individual issues, of which automobiles stood apart as the most important. Other issues also contributed to the sense of tension in 1982, including fisheries, computers, industrial fasteners, machine tools, steel, televisions and textiles. While complaints and problems are only to be expected in a relationship as close as that between the United States and Japan, 1982 brought some disturbing new wrinkles in the push for protection from imports.

The main new development of the year was the shift away from the more traditional trade law routes of dumping, counterveiling duty and unfair trade practice suits toward new and novel actions. Representing this new approach were the national security arguments raised by both the industrial fastener industry and the machine tool industry, as well as the investment tax credit argument raised by Houdaille Industries, Inc. (a machine tool maker) that amounted to an attack on Japanese industrial policy.

Some of the other developments explored below demonstrate the tendency of protectionism to stay in place or even be strengthened over time. Fisheries, steel and textiles are examples of this tendency.

Fisheries In its first reciprocity-type sanction against Japan, the Reagan administration placed restrictions on Tokyo's fishing rights in Alaskan waters at the end of April. These restrictions were to remain intact until the U.S. government determined that U.S. fishing interests had been granted greater access to Japanese markets. This action was taken under the authority of the Fisheries Conservation and Management Act (FCMA) which, as amended by Congress in December 1980, permitted the relevant executive agencies to reduce certain countries' fishing allocations within the 200-mile economic zone because of "economic and social considerations," including extent of reciprocal market access.

The restrictions on Japanese fishing were made under a decision to grant the year's total allowable level of foreign fishing (TALFF) privileges in a piecemeal fashion by initially announcing only half of the allocation, with the remainder to be announced in two segments in April and July. When the April announcement came, Japan received only 15 percent of the annual total. Since Japanese fishermen were evidently expecting the straight 25-25 split between April and July allocations (as was granted to other nations in April), they were angered to the point of staging massive demonstrations. The State Department made it clear that greater "over-the-side" sales of U.S.-caught fish to Japanese processors and/or liberalized market-access measures could restore the cut when the July allocation was made. Tokyo countered that these demands would require extensive cutbacks in its own fleets, and that this posed considerable "social problems" to an industry that historically provided lifetime employment.

Despite the protests from Japan, U.S. officials stuck to their position that unless the United States withheld part of its quota, there would be no incentive for Japan to aid in the development of the American fishing industry as required by U.S. law. At a May meeting in Seattle between U.S. and Japanese fishing industry representatives, in what was heralded as a major concession to U.S. fishermen, the Japanese side therefore agreed to purchase 120,000 metric tons of U.S.-harvested groundfish during the June 1982-May 1983 period, and 200,000 metric tons from June 1983 to May 1984. Washington subsequently agreed to restore the 10-percent cut when Tokyo was notified of its July allocation.

Against this backdrop of using the quotas to pressure Japan in fishing issues, the two nations faced the necessity of hammering out a new bilateral "Governing International Fisheries Agreement" (GIFA). An agreement was reached at the end of the summer that would run for five years after the existing GIFA expired at the end of 1982.

The new pact codified unilateral U.S. allocations of catch quotas based on the reciprocity criteria used against the Japanese during the spring. Specifically, it enabled the State Department to continue its policy of a three-part 50-25-25 split in the authorization of the annual quotas, with the second two install-

ments contingent upon satisfactory compliance with the reciprocity policy. Under the previous GIFA, the United States allocated its surplus catch in first-of-the-year lump-sum allotments.

Both parties also reached agreements on a document attached to the new GIFA stating that Washington would grant the Japanese special consideration in determining their allocations so as not to dislocate Japan's fishing industry. Since the FCMA explicitly stated that the well-being and development of the American industry was of primary concern, this side document, or "minute," was intended to assure Tokyo that "to the extent possible" the health of its industry would be considered when foreign allocations were made—but that the GIFA, first and foremost, was to be the ruling agreement.

Before going into effect, however, the new GIFA had to be approved by both Congress and the Diet. It was finally passed on the U.S. side in the closing days of the 97th Congress in December. Both Houses sanctioned the new accord on December 10 as Title IV of the Commercial Fisheries Research and Development Act (H.R. 3942)—a collection of several pieces of fisheries legislation.

A final fisheries problem during the year was the threat to cut Japan's allowable catch because of its position on whaling. In July, the International Whaling Commission (IWC) imposed a moratorium from 1986 on all commercial whaling in the interest of conservation. Given the fact that whaling was regarded as a "traditional" industry in Japan, directly employing an estimated 1,300 individuals and affecting some 50,000 others in related industries, the Japanese Cabinet lodged a formal complaint which had the effect of allowing commercial whaling operations to continue past 1986.

Under U.S. law, the Japanese risked losing fishing rights in American waters by filing their objection. This came from two little known amendments to the FCMA: the Magnuson/Packwood amendment, which would immediately slash by 50 percent a country's fishing allocation if it violated IWC resolutions; and the Pelly amendment, which would ban all fish or fish product imports from a violating country. Since the ban on whaling was not scheduled to take effect until 1986 (giving the Japanese time to alter their stand), the whaling issue did in the end affect the 1983 allocation for Japan. When finally announced at the beginning of January 1983, that allocation (50 percent of the year's total) was 514,000 tons, down 430 tons from that granted in 1982.

Hitachi Case Whereas fisheries and other problems dealt mainly with questions of official government policy on standard trade issues, the Hitachi case was a criminal one involving allegations of industrial espionage. The Justice Department charged 20 people on June 22 with conspiracy to steal computer designs and technology from International Business Machines Corp. (IBM) and pass the information on to two Japanese data-processing equipment manufacturers, Hitachi, Ltd. and Mitsubishi Electric Corp. Sixteen of the men named in complaints filed in Federal court by the United States Attorney's Office for the Northern District of California were high-level employees of either Hitachi or Mitsubishi Electric. The Hitachi representatives were charged with paying undercover Federal Bureau of Investigation (FBI) agents $622,000 between November 6, 1981 and June 22 to obtain pirated information, while the Mitsubishi Electric employees were alleged to have made payments of $26,000 for similar information between January 12 and June 22.

The FBI undercover operation that led to the conspiracy charges was not originally aimed at Japanese companies. Instead, the primary purpose of Operation Pengem, started in September 1981, was to stop the illegal export of U.S. technology to eastern European interests. In October, however, IBM officials approached the FBI and reported learning that Hitachi had obtained proprietary volumes of the company's design manuals for the new 3081 family of very large computer mainframes.

The FBI agreed to investigate how these IBM manuals had changed hands, putting its plan into operation in November. IBM cooperated with the agency by providing data and technical information that were sold to the Japanese suspects by undercover agents operating out of a front company, Glenmar Associates in Santa Clara, California, which billed itself as a computer consulting firm. The FBI ended the operation on June 22 after IBM decided that the last batch of information allegedly requested by the Japanese suspects was too valuable to give up.

The indictments were handed down on June 30 for fourteen Hitachi employees and Hitachi corporation itself, and on July 19 against Mitsubishi Electric and four of its employees. In addition to these criminal cases brought by the government, IBM filed a civil suit against Hitachi on September 16. Named as well in the suit, filed in U.S. District Court for the Northern District of California, were National Semiconductor Corp. and its National Advanced Systems unit, which modified Hitachi's computer hardware for the American market. Neither of these companies was charged in the criminal indictments. No decision was reached in either the criminal or civil cases during 1982. (The criminal case ended in 1983 when Hitachi pleaded guilty.)

As important as the cases themselves was the attention they received in the media. U.S. government officials repeatedly assured the Japanese that the cases were completely separate from trade policy issues and the U.S. press generally presented a restrained view. In Japan, on the other hand, reactions ranged from indignation at the tactics used by the FBI to the conviction that the probe represented a scheme by the U.S. government and IBM to ward off any challenge in the high-technology area. There was more than a hint that these sentiments were fed by the image of the United States as a giant twisting the arms of Japan—the victim and scapegoat. This view was distorted, but understandable given the repeated bouts of pressure on trade issues over the previous year and the rising Japanese resentment of that pressure.

Industrial Fasteners The industrial fastener industry—makers of nuts and bolts—had been a perennial seeker of protection from imports. It had received relief in 1979, but, following the advice of the International Trade Commission, President Reagan allowed the 15-percent escape-clause tariffs levied on ferrous nuts, bolts and large screws for the previous three years to expire as scheduled on January 5. A coalition of industry and labor groups had lobbied for a three-year extension of import relief but failed in that effort.

Thwarted in its attempt to get the escape relief extended, the industrial fastener industry launched a unique two-pronged effort to gain renewed protection from imports of Japanese-made nuts, bolts and screws. In a novel countervailing-duty complaint filed late in February with the Department of

Commerce and the International Trade Commission, the United States Fastener Manufacturing Group, the industry's Cleveland-based trade association, charged that a two-tiered pricing system for wire rod sold in Japan and wire rod exported to the United States gave Japanese industrial-fastener manufacturers an unfair competitive advantage and enabled them to undersell their American counterparts in the U.S. market. What set this complaint apart from normal countervailing-duty petitions, which allege direct or indirect government subsidization of production and exports, is that it claimed Japanese producers of industrial fasteners received "subsidies on steel content" from private steel mills in Japan.

Less than a month after charging Japanese manufacturers with exporting subsidized industrial fasteners, though, the United States Fastener Manufacturing Group withdrew its countervailing-duty complaint. Department of Commerce officials questioned the definition of the subsidy alleged in the petition, pointing out that U.S. trade laws basically define subsidization as government assistance to an industry or firm.

On a related front, the Commerce Department initiated an investigation into the national-security implications of heavy U.S. reliance on foreign-made industrial fasteners. The inquiry was in response to a request from Secretary of Defense Caspar Weinberger, who expressed concern about the capability of domestic fastener producers to satisfy existing and future emergency defense requirements since they were supplying only about half of the overall American market. In a January letter to Commerce Secretary Malcolm Baldrige, Weinberger reportedly stated: "The establishment and retention of a viable domestic industrial base is essential. We must not be placed in a sole source foreign dependency situation for mobilization production needs."

The national security investigation was conducted under Section 232 of the Trade Expansion Act of 1962, which provides that if a national-security problem is found to exist, Commerce can recommend to the President that quotas or higher tariffs be imposed. In the past, import restraints for national-security reasons had been introduced for only one industry, petroleum. The investigation proceeded throughout the year, but no conclusion was reached until 1983 (when the request for protection was rejected).

Machine Tools Imports of machine tools from Japan had been building as a potential trade problem for some time. From $103 million in 1977, American purchases of Japanese-built metal-cutting and metal-forming machine tools rose to $751 million in 1981, propelled upward by arrivals of numerically controlled lathes and machining centers. In the spring of 1982, this situation moved the industry to action.

Houdaille Industries Inc., a Florida-headquartered machine tool maker, asked President Reagan in May to invoke an obscure provision of the tax code in order to deny tax breaks to U.S. companies that buy Japanese-made machining centers and punching machines. In its complaint, filed with USTR, Houdaille maintained that Section 103 of the Revenue Act of 1971 empowered the President to disqualify products manufactured overseas from eligibility for the investment tax credit if the government of the supplying country pursued policies that unjustifiably restricted U.S. trade, such as "tolerating" international cartels. Japan fell in this category, Houdaille argued in its petition, which contained extensive documentation to back up charges that the Japanese government fostered the development of a machine tool cartel in the 1950s and 1960s and had nurtured the cartel's international marketing power since then.

The significance of the Houdaille case was that it represented a new approach to protectionism that promised to attract increasing amounts of attention in the future. Not only was the use of Section 103 a novel approach, and one without a defined decision process, but the charges against Japan focused on activities hitherto outside the realm of trade complaints. In essence, Houdaille was the opening round of a rising focus on Japanese industrial policy and the concept of targeting industries for growth. No other overt actions against Japanese industrial policy began in 1982, but Houdaille spurred interest in this approach. Faced with this unusual approach, and the prospect of opening a pandora's box, the administration wrestled with the case inconclusively for the rest of the year as deep divisions of opinion prevented announcement of any decision.

Later in the year the National Machine Tool Builders' Association (NMTBA) threatened to file a petition for across-the-board relief from imports under Section 232 of the Trade Expansion Act of 1962—a provision that authorized the President to restrict imports if they threaten national security. The NMTBA's decision to pursue this route was undeterred by the failure earlier in the year of the industrial fastener industry to win its Section 232 case. Although the board of the NMTBA made its decision in November, the actual case was not filed until 1983.

Steel The steel industry in the United States was another that had long sought— and achieved—some degree of protection from imports. Beginning in 1978, much of the conflict with Japan had been settled through the unusual creation of the trigger price mechanism (TPM), a floor price on imports below which dumping investigations would be initiated.

During 1982, Japan was largely an observer as the U.S. industry turned its main attention on Europe. Making good on their threat to file sweeping trade cases if steel imports from Europe and certain other countries did not abate, leading U.S. steel producers brought a spate of antidumping and countervailing-duty complaints against seven members of the European Community, plus Spain, Romania, South Africa and Brazil at the beginning of the year. Forced to play its hand, the Department of Commerce suspended the TPM on January 11, reiterating its position that the system had been reintroduced in October 1980 as a substitute for and not a supplement to wide-ranging industry-initiated trade cases. This was not a move favored by the Japanese makers, who had supported and abided by the TPM during its existence.

In February the International Trade Commission decided that most of the steel imports cited in the petitions filed in January may have injured the U.S. industry. The commissioners found a reasonable indication of material injury in only 38 of the 92 complaints, but these complaints represented 85 percent of the value of imports covered in the petitions and 89 percent of the import volume. Next, in a series of preliminary findings, the Department of Commerce ruled on June 10 that seven European Community countries as well as Brazil and South Africa were shipping subsidized steel products to the United States. However, before the cases continued on to a final decision, the United States government negotiated a settlement whereby shipments

from the EC were voluntarily limited.

With the problem of imports from the EC settled, the U.S. steel industry turned its attention to Japan. In October, U.S. Steel Corp. announced that it would soon file a complaint under Section 301 of the Trade Act of 1974 against Japanese steel mills. U.S. Steel's complaint charged that a quantity and pricing arrangement between Japan and the EC on steel trade diverted Japanese steel to the American market.

The U.S. Steel case was originally expected to be filed by the end of October. That filing date as well as a late November deadline were subsequently scrapped by the company to give U.S. trade officials more time to negotiate a settlement with the Japanese government. U.S. Steel chairman David M. Roderick, who maintained that a negotiated solution would be preferable to a trade case, had hoped that Deputy USTR Macdonald would hold side talks on steel with the Japanese when he was in Tokyo at the beginning of December, but those discussions did not materialize. Thus, by the end of the year, Japan was on the verge of being drawn into the protectionist campaign that had been successfully carried out against the Europeans.

In a completely separate action, the American unit of Mitsui & Co., Ltd. pleaded guilty July 21 to federal criminal charges that it tried to circumvent the by-then suspended steel trigger price mechanism (TPM) by making false price statements to the U.S. Customs Service. In exchange, the Department of Justice agreed to drop its fraudulent steel practices probe of the Japanese trading company and not to present to a San Francisco grand jury any further charges against Mitsui & Co. (U.S.A.), Inc. arising from the investigation. As part of the settlement of the criminal charges, the U.S. subsidiary was fined the maximum $210,000. It also consented to pay $11 million as a civil fraud penalty without admitting or denying guilt. The joint civil-criminal settlement was the largest in the Customs Service's history, and was the end product of a wide-ranging two-year Customs investigation into possible fraudulent practices in the sale of imported steel in the U.S.

Color Television The longest-running trade case involving Japanese products has been the dumping case brought by Zenith Radio Corp. and other domestic interests fourteen years earlier. The 1982 episodes of the battle over Japanese-made television sets began after the U.S. government agreed in April 1980 to drop all claims for dumping duties on TVs imported from Japan through March 1979 in exchange for the payment of an estimated $70 million. Zenith, maintaining that hundreds of millions of dollars in dumping duties were owed by American importers, went to court, arguing that the government had acted arbitrarily and in bad faith in reaching the settlement. The Court of International Trade agreed, and in December 1980 it issued a preliminary injunction enjoining any settlement.

This injunction was appealed, however, to the U.S. Court of Customs and Patent Appeals (CCPA). On March 11, 1982, the trade appeals court unanimously ruled that the Court of International Trade did not have jurisdiction to prevent a negotiated solution. The CCPA remanded the Zenith suit back to the lower court with instructions to dismiss the case "for lack of jurisdiction."

Zenith then appealed the CCPA decision to the U.S. Supreme Court. On October 18, though, the Supreme Court dealt yet another blow to Zenith when it refused to review the trade appeals court decision. This did not immediately clear the way for Commerce to implement the settlement agreement with U.S. importers of Japanese-made television sets since the injunction issued by the Court of International Trade in December 1980 was still in effect. To continue to block settlement once this order was dissolved, the Committee to Preserve American Color Television (COMPACT) asked the court for a preliminary injunction. A labor-management coalition, which had a suit similar to Zenith's before the Court of International Trade, also tried to amend its complaint to zero in on procedural irregularities involved in Commerce's settlement pact with importers—an issue the Court of Customs and Patent Appeals had ruled was within the lower court's jurisdiction.

The TV dumping dispute spawned three other suits that were before the Court of International Trade:

Both Zenith and COMPACT challenged Commerce's fair-value comparisons for television sets imported from Japan during the April 1979-March 1980 period, which indicated that most major Japanese consumer-electronics makers were no longer dumping TVs in the United States.

Eight Japanese television-set producers contested the International Trade Commission's June 1981 conclusion that the American television industry would be threatened with material injury if the dumping finding applicable to Japanese-made TVs were revoked.

The Third U.S. Circuit Court of Appeals in Philadelphia in 1982 also took under advisement an appeal by Zenith of a federal district judge's dismissal of its complex civil antitrust suit against Japan's principal consumer electronics manufacturers in 1981. Until the federal appeals court reached a decision, expected in 1983, the counterclaims filed against Zenith by the defendants remained in limbo. Thus, 1982 came to a close with the stubborn battle no closer to a conclusion than a year earlier.

Textiles American textile industry complaints have been directed in large measure against developing countries, and textiles have not been a major part of Japanese exports for a number of years. Nevertheless, in September, the United States and Japan signed a new bilateral textile-apparel agreement that set quotas on 11 products and gave Washington the additional right to restrict imports when surges threatened to damage the domestic industry. The accord came at a time when U.S. imports of textiles and apparel from Japan were showing renewed vigor; 1981 purchases, for example, were almost a third above the 1980 level. Although it was actually hammered out late in 1981 during the Multifiber Arrangement (MFA) talks, the four-year pact was delayed by Tokyo's complex approval process.

The U.S. negotiators' tough zero-growth position was clearly evident in the terms of the agreement. The 11 quota items were permitted annual increases of between 1 and 3 percent, depending on the particular category; in contrast, the previous accord, which also restricted 11 products, allowed increases of 6 percent. Five of the quota categories were covered by an overall import limitation for the 1982-86 period that confined each year's quota to a maximum of 35 percent of the four-year limit.

In accordance with the MFA protocol, Tokyo would be able to insist at least that the United States provide "equitable and quantifiable" compensation to Japanese producers if it implemented the surge mechanism to limit

textile imports. The new agreement also included a provision which permitted Japan to transfer items from one quota category to another, or use part of a current year's quota in the following year and transfer part of the subsequent year's quota into the current year.

In a related development, the American Textile Manufacturers Institute (ATMI) decided to file an antidumping suit against imports of textured polyester fabrics from Japan, charging that Japanese manufacturers were "significantly undercutting prices." These actions on textiles were an instructive lesson on the tendency for protection to continue indefinitely once an industry begins to receive protection from imports.

Debate on Japan's Defense Role

From the beginning of the Reagan administration in 1981, defense issues assumed a high profile both domestically and internationally. Pressure placed on Japan to increase its defense effort continued unabated during 1982, both in the executive branch and in Congress. Just as in 1981, though, this pressure clashed with both the political limitations in Japan on a stronger defense posture and the fiscal dilemmas of increasing defense spending when other spending was under strong constraints. By the end of the year, at least some progress seemed to be coming on the issue of military technology transfer. Prime Minister Nakasone's election was also welcome news in Washington because of his strong pro-defense stand.

Bilateral Discussion of Japan's Role

Each year, bilateral defense issues are the subject of a variety of meetings between the two governments as well as public speeches and pronouncements.

Response to FY 1982 Budget Part IV discussed the FY 1982 budget of the Japanese government, which was approved by the Cabinet and submitted to the Diet in January. The Reagan administration publicly praised the Suzuki government for increasing defense spending by 7.75 percent in the budget. Coming during a period of severe budgetary austerity, Washington acknowledged that "strong political leadership" was required to realize such an increase when social welfare expenditures were held to only a 2.8-percent increase. "[This] demonstrates a commendable awareness of the need and a most appropriate change of priorities," a Defense Department release stated. Administration sources were careful to add, however, that the 7.75-percent figure constituted a sound beginning of greater cooperation in defense, under the terms of the May 1981 Reagan-Suzuki communique, implying that greater increases were still expected in the future.

Security Consultative Committee Meeting On January 8, the U.S.-Japan Security Consultative Committee (SCC) held its first meeting since 1978. Representatives of the United States at the SCC meeting included U.S. Ambassador Mike Mansfield, U.S. Pacific Fleet Admiral Robert Long and General Charles Donnelly, head of the U.S. forces in Japan. Japanese participants included Foreign Minister Yoshio Sakurauchi and Japan Defense Agency (JDA) Director General Soichiro Ito.

At this meeting, the Cabinet decision to boost the fiscal 1982 defense budget by 7.75 percent was noted by U.S. Ambassador Mansfield and Admiral Long, who, however, qualified their praise, voicing strong hopes for continued and steady defense build-up efforts, in line with the Reagan administration position voiced in Washington.

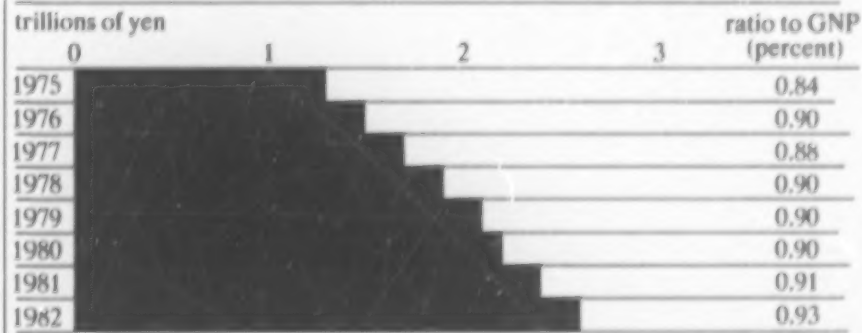
Admiral Long underscored the difference between the Reagan administration and previous policymakers, noting that the Reagan administration was more concerned about sharing security roles and missions than about specific budget figures. Ambassador Mansfield suggested, however, that one cannot necessarily be realized without the other. Citing the ever-increasing Soviet naval presence in the Western Pacific and the need to redeploy U.S. Pacific forces in response to potentially destabilizing developments in other areas, he contended that greater bilateral cooperation in defense was essential. He further urged that Japan assume more responsibility for the operation of U.S. forces on the home islands, joint military training, and defense technology exchanges.

The two countries also agreed formally at the SCC meeting to initiate a joint study of bilateral defense cooperation in the Far East. Although Article 6 of the U.S.-Japan Mutual Security Treaty stipulated that Japan was obliged to extend facilitative assistance to U.S. forces in the event of an emergency in the region, its responsibilities were rather vaguely defined. At the previous SCC meeting in 1978, the two agreed to launch a defense cooperation study focusing on logistical support to U.S. armed forces covering base facilities, supplies, equipment maintenance and transportation.

Japanese officials were careful to stress that the new study did not mean that the government was leaning in the direction of *collective* self-defense, for instance working side by side U.S. forces in Korea. Rather, the study would give further direction to Japan's long-term defense plan. JDA Director General Ito said that the joint study would also consider the possible revision of certain Japanese laws that might obstruct this logistical support.

Weinberger in Tokyo The by-now familiar points of the Reagan administration's position on defense were reiterated by U.S. Secretary of Defense

Defense Spending in Japan



Source: Japan Defense Agency

Caspar Weinberger, in Tokyo during late March as part of a nine-day swing through Asia. He stressed that the United States could no longer defend Asia alone, and that qualitative and quantitative improvements in Japan's forces were necessary to effectively complement the American military presence in that region.

In a speech outlining American policy toward Asia, the Secretary pledged that the United States would remain an Asian power and "within its means, do as much as is necessary to insure that the Pacific-Indian Ocean sealanes remain open . . ." However, he stressed that Japan had to acquire, within the limits of its constitution, sufficient military strength "within this decade" to defend its own territory, and the seas and skies around its home islands to a distance of 1,000 nautical miles. Tokyo did not yet have this capability, he observed, and to attain this level of competence—which the Prime Minister told President Reagan in May 1981 was attainable in the foreseeable future—would require increases in defense spending "substantially greater" than the FY 1982 rate. Washington approved of Tokyo's increase, he said, but feared that even this would not be sufficient for the defense improvements needed to match rapidly expanding Soviet naval and air strength in the western Pacific. Since defense officials were reportedly skeptical that Tokyo's pending 1983-87 defense buildup plan would enable Japan to acquire a "meaningful defense capability" by 1990, Secretary Weinberger's remarks were intended to keep the pressure on the Japanese without hectoring them over specific figures or defense spending as a percentage of GNP.

While detailed discussions on military plans were not the focus of the Weinberger mission, Washington had stated in the past that it would like Tokyo to improve its anti-aircraft defense systems and acquire sufficient naval strength to protect most of the commercial and other traffic that traversed the sealanes extending south toward the Philippines and east toward Guam. Some officials also noted that an expanded Japanese naval force would be effective in blockading the three straits leading from the Sea of Japan, thereby containing the Soviet navy at Vladivostok.

Arriving in Tokyo in the wake of rather vitrolic statements from Congress lambasting the Japanese for not carrying their fair share of the defense burden (discussed below), Secretary Weinberger was in the unenviable position of encouraging a more active Japanese defense role, while disassociating himself from the legislators' strident demands. Washington knew that such talk risked precipitating a nationalistic backlash in Japan.

Regarding the efforts of some politicians in Washington to link trade friction with the defense debate, the Secretary underscored the administration's position that the two issues were more effectively resolved separately. "We do not believe that action on trade problems resolves our concerns with defense—or vica versa," he maintained.

New Five-Year Plan The new five-year plan (FY 1983 to FY 1987), about which American officials had already expressed some skepticism, was ready by summer. Having completed preliminary consultations with the Ministry of Finance, the JDA submitted this plan to the National Defense Council on July 23 for final approval. While the target's outlines were not binding on the agency, the report nevertheless established guidelines for the JDA for making its annual budget requests.

While the government's policy for fiscal 1983 was to hold the level of defense spending below 1 percent of GNP, members of the Liberal Democratic Party security subcommittees were reportedly convinced that it would be impossible to attain the goals of the new five-year plan without exceeding the 1-percent barrier. The JDA wanted approval of this plan in time for the late August U.S.-Japan security subcommittee meeting in Hawaii, where the specific armaments the JDA planned to acquire and the roles and missions of the Self Defense Forces were to be closely examined.

In an effort to comply with Washington's request for improved air and naval defense capabilities, the JDA focused much of the plan in precisely these areas. The agency estimated that by 1987 the Maritime Self Defense Forces (MSDF) would have approximately 80 P3C Orion anti-submarine patrol aircraft, requiring 50 additional planes in addition to the 25 authorized in the FY 1982 budget. The JDA also hoped to build to a 53-ship fleet which would necessitate the construction of some 13 additional ships, as well as six new submarines to bring this branch of the naval forces up to a 15-ship level. The Air Self Defense Forces (ASDF) would have to acquire another 70 F-15 fighter planes to achieve the agency's goal of a 150 fighter-plane force.

Security Subcommittee Meeting In late August, the United States and Japan held the 14th annual U.S.-Japan Security Subcommittee (SSC) meeting in Honolulu, where the new five-year plan became as expected one of the topics discussed. Ambassador Mansfield called the discussions the most open and frank exchange on security matters that both countries had enjoyed to date. The agenda covered a wide range of defense-related issues including the global and regional security situation, the new 1983-87 medium-term defense plan, the question of the defense of Japan's sealanes out to 1,000 nautical miles and the extent of Tokyo's support for U.S. military facilities in Japan. Since these were not negotiations per se—the purpose being to inform each other of respective defense plans and improve coordination in regional security strategies—no specific agreements were concluded, although both sides did agree to undertake a joint study on the protection of Japan's 1,000-mile sealanes.

One important aspect of the talks was the mutual recognition of Moscow's expansionism. State Department sources contended that there was no great discrepancy between the United States' overview of the global security situation and Japan's assessment of the Asian arena. Washington did not zero in on the size of the defense budget or spending as a percentage of GNP, but rather questioned whether the 1983-87 plan would ultimately enable Tokyo to upgrade its capabilities to an "appropriate size" to match the dynamism of the Soviet military machine. U.S. participants also outlined in general terms what was expected from U.S. allies in terms of host-nation support.

The Japanese delegation stressed that despite acute fiscal restraints, Japan would endeavor to complete the build-up plan and supplement it with comparable increases in official development assistance, particularly in Asia and the Middle East. According to one Japanese press account, American officials reportedly said that even if the five-year defense plan were completed, Japan's ability to protect the 1,000-mile sealanes might still be insufficient.

Ito Meeting in Washington Continuing on bilateral dialogue, JDA Director General Ito toured the United

States in September, stopping in Hawaii, Colorado and Texas to visit U.S. military facilities before meeting in Washington with key policymakers. Although the content of these Cabinet-level discussions was kept highly confidential, there were indications that the agenda was quite similar to that of the Hawaii security subcommittee meeting in August. Various news accounts reported that Japan's defense of the Pacific sealanes and bilateral military technology exchanges dominated the conversations with Secretary of State George Schultz and Secretary of Defense Caspar Weinberger. Also on the agenda was U.S. Air Force use of the Misawa airbase for 50 F-16s.

On September 30, the JDA chief and Secretary Weinberger signed the agreement to base F-16s at Misawa, approximately 350 miles east of the Soviet Union, to "improve the military balance in the Far East, demonstrate U.S. commitment to mutual defense in the Far East, and enhance the deterrence strength of the U.S.-Japan security relationship." U.S. Air Force officials estimated that the Soviet Union had tripled the number of MIG-25s and other fighters in the Far East over the preceding three years. Thus, Misawa had been viewed as an ideal place to station the fighter aircraft, which have a combat radius of approximately 500 miles, "to correct a deficiency in U.S. tactical air power which has been brought about by this Soviet buildup in the Far East."

The Air Force evidently had 72 F-15 fighters on Okinawa (approximately 1,300 miles southeast of the Soviet Union), but the island was beyond the range of the plane without mid-air refueling. Fifty-five F-16s and other aircraft were also based in South Korea. Although U.S. forces were qualitatively up to par, Pentagon officials stressed, the United States still had a comparatively small force in this part of the Asian Pacific.

According to official reports, the United States planned to make an initial deployment of 24 F-16s at Misawa in 1985, and to increase the number to about 50 in subsequent years. Prime Minister Suzuki, in China during these discussions, signed off on the Misawa agreement prior to his departure. The planned deployment was apparently not subject to the "prior consultations" clause of the U.S.-Japan Mutual Security Treaty since it did not involve more than two air squadrons. The F-16 basing agreement did mean, however, that some 3,500 U.S. military personnel and their families would be sent to Misawa. Predictably, this raised the ire of the opposition parties. The Japan Communist Party described the U.S. plan as a "rash attempt".

This decision on basing planes at Misawa was the only substantive agreement reached during the year. Considered separately below is the military technology issue, on which discussions continued, but which was not finally resolved until 1983. At the end of 1982, the two countries were about where they were at the beginning of the year, with the United States pressing for greater effort by Japan, and Japan trying to respond, but limited by budget problems and public reaction.

Congressional Hearings

Just as with trade issues, Congress was a significant factor on bilateral defense issues, and this continued to be the case in 1982. Reactions in Congress tended to be stronger and less understanding of Japan's constraints than executive branch positions.

House Foreign Affairs Committee

During the spring, the House Foreign Affairs Committee, Subcommittee on Asian and Pacific Affairs, conducted a long series of oversight hearings on Japan, in which defense questions figured prominently. These hearings provided an excellent review of the major issues and problems in bilateral defense, airing the views of a number of recognized experts. At the first round of hearings in early March, the speakers warned that it was counterproductive to pressure Tokyo on specific budget figures and that instead both sides should develop a common position on the security of Japan and the region, and consider appropriate roles and missions to meet that threat.

Ralph Clough, of the Brookings Institution, stressed at the hearings that it was pointless for Washington to hound Tokyo about augmenting its defense capabilities in response to the growing Soviet naval presence in the western Pacific, when Japan did not in fact share the American perception of the threat this posed to regional security. Robert Scalapino of the University of California concurred, adding that Tokyo's apprehension had been mitigated by the U.S. nuclear umbrella. It was unreasonable to demand that Japan spend 4 or 5 percent of its GNP on defense, he observed. Such an increase would not only intimidate regional neighbors who still harbored memories of pre-World War II Japanese military expansionism, but would be internally disruptive as well since public opinion did not favor an expanded military role.

Later witnesses also endorsed this view, with one pointing out that the Japanese public looked at Soviet *intentions* rather than capabilities, and thus did not see as much of a threat.

There was uniform agreement among witnesses, though, that it was highly unlikely that Japan would buckle under this pressure from its chief ally and opt for a policy of neutralism. "Japan has no other viable alternative to its relationship with the United States," former Ambassador to Japan U. Alexis Johnson maintained. "The opposition parties are losing strength, and public opinion [favors] a strong relationship with the United States."

A variety of views were expressed at the hearings on the need or desirability of altering the U.S.-Japan Mutual Security Treaty (MST) that provided the basic framework of bilateral defense relations throughout the postwar period. Former Japan Society president Isaac Shapiro went so far as to advocate a renegotiation of the MST, warning that this was the only way the United States could ever realize a more equitable defense arrangement in the western Pacific.

Other witnesses argued against the Shapiro view. Selig Harrison of the Carnegie Endowment for International Peace, argued that such pressure could be counterproductive, precipitating an anti-American drift. Nathaniel Thayer, chairman of Asian Studies at the Johns Hopkins School for Advanced International Studies, and subcommittee chairman Stephen Solarz (D, N.Y.) concurred that renegotiation of the MST was not necessary or desirable since, in their view, American demands for defense improvements could be accommodated within the framework of the existing treaty.

When queried by Rep. Solarz concerning Japan's perception of the Soviet threat, Prof. Thayer responded that there was a whole range of thinking in Japan. He felt the Japanese would accept the U.S. assessment of the security situation, but that there was also a view that Japan should help the Soviet Union develop a stake in the world trading system. "It still hasn't given up

on the idea that one can contribute to world peace in a non-military manner," he stated.

This theme of working within the framework of the MST and proceeding cautiously in pressing Japan on defense matters was reinforced in the third week of hearings. Three witnesses-Professor Gerald Curtis of Columbia University; Lt. General William Ginn Jr., former commander of U.S. forces in Japan; and Professor Michael Nacht of Harvard University all considered the question of how Japan could be encouraged to devote more resources to defense without creating a backlash.

Professor Curtis warned that public hectoring about Japan's defense spending as a percentage of GNP would only create a negative counterpressure in Japan. "Private negotiations that focus on defense roles and missions are far preferable [since they are less politically inflammatory," he continued, "and in this regard, the Reagan Administration's approach has been commendable." Lt. General Ginn concurred that such pressure was not helpful in providing the rationale and logic to build a consensus in Japan for a defense buildup. Professor Nacht also agreed that numbers should not be the sole component of U.S. demands for improved Japanese defense capabilities, but he did advocate marrying the demands for greater budget outlays with specific defense talks.

All three of these witnesses agreed that it was inadvisable to consider renegotiating the MST or to encourage Japan to become a major military power with naval capabilities extending as far as the Persian Gulf. Prof. Nacht stressed that since the MST played such an important political and psychological role in Japan, it would be a mistake to start tampering with it unless one were absolutely sure that it was the chief obstacle to upgrading Japan's self-defense capabilities. The defense debate in Japan, Prof. Curtis said, had been phrased often in terms of how Tokyo should respond to U.S. pressure rather than in terms of security needs. Thus, to encourage Japan's becoming a major military power with expanded naval and air capabilities was: (1) to posit a (highly unlikely) American withdrawal from the region; and (2) to misunderstand the "insurmountable obstacles" to such a leadership role in Japanese political culture.

At the end of this long series of hearings, the Foreign Affairs Subcommittee heard more specific proposals. The State Department endorsed a proposal (H.Con.Res. 172) calling for greater U.S.-Japan cooperation in securing the sealanes in and between the Pacific and Indian Oceans, chief sponsor Rep. Paul Findley (R, Ill.) told the subcommittee, although this was the only one of the several proposals before Congress on the U.S.-Japan defense relationship that the administration supported. H.Con.Res. 172 was a "sense of the Congress" resolution, so its enactment would only inform the President of a prevailing view in Congress.

The objective of the proposal was to focus congressional discussion of the U.S.-Japan security relationship on the issue of sealane security. Specifically, the resolution stated that "the Japanese Self-Defense Forces should increase its capacity to defend the sealanes important to Japan's security by increasing its capabilities for naval mining, air defense, and anti-submarine warfare."

In his testimony to the subcommittee, Rep. Findley approved of Tokyo's pledge to defend its waters up to 1,000 miles from its shores, but only as an intermediate goal because 1,000 miles would not take in the defense of sealanes to Guam or the Philippines, even though the sealanes all the way to the Straits of Hormuz in the Persian Gulf were vital to Japan's self-defense. Admiral Noel Gaylor, former commander of the U.S. forces in the Pacific, concurred at this final round of hearings that 1,000 nautical miles did not recognize the dynamism of political and military developments in the region. Earlier witnesses, though, had opposed pushing Japan to defend anything farther away than 1,000 nautical miles because it would imply acquisition of offensive weapons—a contravention of Japan's constitution. In the end, no action was taken on H.Con.Res. 172 before Congress adjourned.

Senate Foreign Relations Committee

Later in the spring, the Asian and Pacific Affairs Subcommittee of the Senate Foreign Relations Committee began consideration of another resolution on Japan's defense effort. S.Con. Res. 46, introduced by Senator Carl Levin (D, Mich.), called on Japan to spend annually at least one percent of GNP on defense. In hearings on this question, however, private sector Japan specialists advised against proposals that called on Japan to spend a fixed percentage of its GNP on defense, or that demanded renegotiation of the Mutual Security Treaty. This reaction paralleled the views expressed in the earlier hearings in the House considered above.

Professor James Morley of Columbia University and Admiral James L. Holloway, former commander of the Seventh Fleet, were among the principal opponents of the resolution at the subcommittee hearings in June. Professor Morley maintained that such proposals amounted to nothing more than "quick fixes [that ignore] where Japan has come from and don't look forward to where Japan may be heading." He urged that Washington adopt a longer range view toward U.S.-Japan defense relations and devise a more "cooperative and forthcoming" policy that would encourage Japan to "advance rapidly in the positive direction it is already taking." Admiral Holloway was equally opposed to public criticism of Japan or threats to abrogate the defense treaty, arguing that it could lead to a complete rethinking on the part of the Japanese of alternatives to the pact with the United States, possibly leading to adoption of a neutralist position in the western Pacific and East Asia.

At the hearings, some of the Senate supporters of the resolution spoke up in its favor, and despite the opposition shown by those from outside the government who testified, the resolution did have 53 co-sponsors. "[This] resolution is a clear indication of how strongly the American people feel that Japan is not meeting its commitments to our mutual security and is not bearing a fair share of the burden of our common defense," chief sponsor Carl Levin (D, Mich.) told the committee. Even a stalwart Japan-supporter, Senator William Roth (R, Del.), had to acknowledge that as long as Japan spent less than one percent of its GNP on defense, "it will be difficult to convince the rest of America that Japan is interested in making a meaningful contribution to mutual defense."

Professor Morley took issue with this position contending that such measures, if enacted, would probably be ineffectual in increasing Japan's defense expenditures. Since the 1950s, he explained, despite recurring U.S. pressure, Japanese defense policy had proved itself to be relatively impervious to American moral suasion. Moreover, the next five-year defense plan

would bring defense expenditures above the one-percent of GNP level. Echoing Admiral Holloway's sentiments, Professor Morley concluded that a likely result of the resolution's passage would be not so much a rapid change in Japan's military buildup as a heightening of resentment at American arrogance. The direction and goals of Japan's defense policy are the legitimate interests, he stressed, not the speed in attaining them.

Despite the strong statements of supporters, the committee included major changes when it finally reported S.Con.Res. 46 on December 14 by unanimous consent. The committee version stated that Japan should immediately increase its defense expenditures to the levels required for its forces to deploy by 1990 an effective conventional self-defense capability, including the capacity to carry out the 1981 policy enunciated by Prime Minister Suzuki to defend its sealanes to 1,000 nautical miles. Committee staff estimated that between 1982 and the end of the decade, Japan would have to spend between 1.4 and 2 percent of its GNP on defense, which translated into annual real increases of between 10 and 12 percent.

This was as far as the resolution proceeded in 1982. The full Senate proved to be as unready as the House to press more vigorously for actual passage of this sort of legislation.

Military Technology Issue

Amidst all the debate and discussion of Japan's defense role, the idea of Japan allowing transfer of military technology to the United States gained considerable support. Emerging from the search for actions Japan could take in lieu of large increases in defense spending because of fiscal constraints, the concept proved to be more controversial than originally expected. No final decision was reached in Japan during 1982, but early in 1983, the new Nakasone government agreed "in principle" to such transfers.

Washington Interest In the spring of 1980, the two governments agreed to institute the Systems and Technology Forum (S&TF), a bilateral group comprised mainly of Defense Department and JDA personnel, to consider how Washington and Tokyo might cooperate in developing defense-related technologies to carry out their designated roles and missions. From the U.S. viewpoint, it was readily apparent that the goal was a two-way exchange of military technology.

Because of the limited capabilities of Japan's indigenous defense industry, the American S&TF participants did not request a definitive list of technologies that U.S. defense planners and manufacturers wanted to acquire from Japan. Nor was there any expectation that these transfer arrangements could be worked out in the immediate future. However, in view of the technological prowess that Japanese companies demonstrated in electronics and other civilian industries, Washington envisioned the possible "marriage" of complementary capabilities farther down the road; it anticipated a positive-sum result which would reduce expenditures and expand the research and production capabilities of both parties.

U.S. officials also emphasized that such arrangements would be in complete accord with each country's treaty obligations. The Mutual Security Treaty stipulated that both countries would maintain and develop each other's defense capability through mutual cooperation, while the Mutual Defense Assistance Agreement of 1954 included provisions for an exchange of technology and know-how at the request of either government. Since the 1950s, technology flow had been strictly one-sided, and as an ally that had long since outgrown the postwar "patron-ward" relationship, officials said, a more reciprocal arrangement was in order.

The Omura-Weinberger meeting in June 1981 was the first time the issue of defense technology exchanges was addressed at the Cabinet level. In raising the matter at a high-level meeting, the United States intended not only to underscore its importance to the overall U.S.-Japan defense relationship, but also to expedite the laborious interministerial consensus-building process.

For U.S. congressmen from areas of high unemployment, the trade and defense issues became inextricably linked. Indeed, they argued that since Japan had spent so little (less than 1-percent of GNP) on defense, it could afford to plow the extra money into developing consumer goods that displaced American workers. Tokyo's reticence about sharing defense technology with its chief ally and trading partner was to them further evidence of how inequitable the bilateral relationship was in all its aspects. It also directed attention to arms co-production programs with Japan. Congressman Sam Stratton (D, N.Y.), for example, successfully amended the fiscal 1982 Defense Appropriations Act to prohibit joint ventures on a weapons system developed by an arsenal in his district.

A General Accounting Office (GAO) study, issued in March 1982, and using the McDonnell-Douglas Corp.'s F-15 co-production project as its focus, said that the transfer of U.S. technology had contributed and would continue to contribute directly to Japan's ability to develop a world-class civil aircraft industry, and concluded that its aircraft production base had been enhanced by U.S. research and technology. Although the GAO's conclusion was strongly refuted by major actors in the State and Defense Departments, who consistently argued that U.S.-Japan trade and defense problems had to be handled separately, it was clear that the logjam over technology transfers further exacerbated the climate and made the separation and resolution of these issues extremely difficult. The subject became a symbol of Tokyo's rigidity in dealing with bilateral problems.

Japanese Internal Debate When the United States spelled out what it wanted at the S&TF meetings, Japanese officials contended that consideration of such ventures threatened to contravene its ban on weapons exports. Essentially, this policy was outlined in the "Three Principles on Arms Exports" adopted in 1967. The ban prohibited exports to communist countries, countries under the United Nations sanction and countries involved or likely to become involved in a conflict. In 1976, Tokyo stiffened the ban further by restricting the export of defense equipment to any country at all. Thus, when it became clear that the S&TR would, in effect, set the stage for eventual bilateral exchanges of military technology, the Japanese participants immediately withdrew to consider whether this was possible within the context of the sacrosanct principles.

In Japan, unlike the United States, no review process existed on export of defense-related items. Some attributed the apparent inconsistencies in Tokyo's weapons export policy to this administrative weakness. For example, in 1981 a Japanese munitions company exported semi-finished gun barrels (referred to as "steel pipes" in the original export license application) to South

Korea. The transaction sparked a furor in the Diet over the apparently lax enforcement of the Three Principles. In another incident, the Ministry of International Trade and Industry (MITI), allowed Ishikawajima Harima Heavy Industries Co., Ltd., one of Japan's major defense contractors, to sell the Soviet Union a floating drydock, which was later moored at Vladivostok to serve the Russian Pacific fleet.

In the South Korean case, the Japanese firm apparently knew the military applicability of the "steel pipes" but nevertheless pursued the sale. The drydock was more a case of Soviet disavowal; Moscow contended that it was ordered for the fishing fleet. In the wake of Diet criticism over the steel pipes, though, the ministry became so cautious that it balked at licensing exports of almost all commodities with potential military applicability.

Throughout the bilateral discussions on technology transfers, the United States therefore made it known that it would like to see MITI, the Foreign Ministry and the JDA agree on an interministerial review procedure that would yield a more uniform assessment of the economic and security implications for the export of defense-related technologies. Washington's conception of the government-to-government agreement was that it would be an umbrella arrangement that would establish administrative ground rules, leaving the implementation of the transfers to defense firms in the two countries. In addition, the United States wanted its exemption from the Three Principles clarified. In return it would agree to bar exports to third countries since the exchanges were intended to enhance only the U.S.-Japan defense alliance.

On the Japanese side, each of the relevant ministries had its own conception of an ideal technology transfer agreement with the United States. This prolonged the consensus-building process during 1982. The Foreign Ministry said that while it had virtually no reservations about the exemption from the Three Principles, it was uncomfortable with an umbrella arrangement and preferred that a formal agreement be concluded on each transfer request. This would have involved the ministry more directly in an export-related matter—long the sacred domain of MITI. Washington quickly let it be known that it found this alternative unacceptable, since it implied excessive red tape, which would only serve to impede such exchanges.

MITI, on the other hand, was reticent about exempting the United States from the weapons export ban. First, it suspected that U.S. defense contractors would try to rob Japanese companies of the technological innovations that made them world-class competitors in the civilian sector. Second, in exempting Washington from the principles, a politico-military factor was added to the equation. The requisite Foreign Ministry input, in practice, was seen as leading to turf squabbles between the two ministries. Critics maintained that MITI still viewed defense technology issues as a trade problem and would prefer to approve exchanges on a case-by-case basis as trade concessions, rather than being obliged to consider such transfers under a government agreement that implicitly compromised MITI's administrative jurisdiction over exports.

The JDA appeared to be divided into two camps. On the one hand were those who viewed technology exchanges with the United States as a way of further solidifying the bilateral defense relationship. On the other hand there were those who advocated the development of a self-sufficient, indigenous defense industry. For the latter group, two-way technology flows represented an undesirable way to tie the defense industry's development to the United States. These officials were prepared to accept certain economic inefficiencies in order to develop a viable Japanese defense base.

The Diet also played a significant role. During the summer of 1982, Prime Minister Suzuki decided not to risk opposition party displeasure over an issue he did not regard as particularly important. The Japan Socialist Party and Japan Communist Party had acted as watchdogs for the Three Principles, and were in fact responsible for exposing the Korean steel pipe deal. They came out against all technology transfers and could be expected to oppose any formal agreement with the United States on the grounds that it would undermine the weapons export ban and open the door to complete abandonment of the Three Principles.

As an example of the vigorous opposition on these issues was the debate early in 1982 in the Budget Committee in the lower house of the Diet. The debate centered on whether Japan was already involved in joint research and development of defense-related items with the United States, in spite of the government's insistence that such collaboration had not occured. According to documents presented by the Socialist Party, a private company, Shin Meiwa Kogyo, helped by the Defense Agency and the U.S. Navy, began working on a new type of anti-submarine surveillance aircraft in 1953. The Socialist Party contended that such projects had been conducted by mutual agreement between the Japanese and American governments. The government rejected requests to provide information either on this project or other projects concerning weapons development on the grounds of confidentiality. The government's position on the Shin Meiwa project was that it began prior to the official 1976 ban on all weapons exports.

U.S.-Japan Trade

Throughout the many discussions and negotiations between the United States and Japan, the bilateral imbalance in merchandise trade frequently cropped up as an issue. It had been labeled as too large, growing too fast, and/or caused by Japanese trade barriers, while economists argued that it was an inappropriate focus of attention.

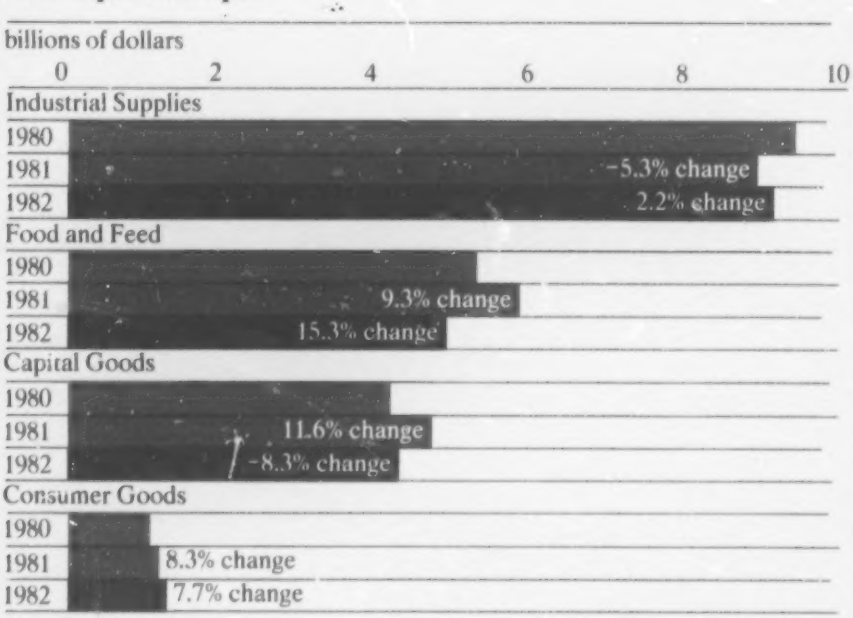
Despite concern in Washington that the U.S. trade deficit with Japan had become uncontrollable, though, the bilateral imbalance rose by only $1 billion in 1982 to $16.8 billion. With Japanese economic growth disappointing and the dollar gaining on the yen until November, American exports to Japan fell 3.9 percent to $21 billion in 1982—the first sales drop since 1975. At the same time, though, the recession engulfing the U.S. economy canceled out the competitive advantage Japanese manufacturers earned from the yen's depressed value and held down the expansion of U.S. purchases from Japan to just 0.4 percent, which translated into imports of $37.7 billion.

U.S. Exports to Japan

Looked at by product, virtually every category of exports did poorly. Most categories registered declines, and many of those that did grow were up by only minor amounts.

Food and feed commodities, the major bright spot in 1981's otherwise mediocre sales picture, were the main drag

U.S. Exports to Japan



Source: Department of Commerce

on overall export growth in 1982, as shipments contracted 15.7 percent to $5 billion. Corn sales dropped by nearly three-tenths to $1.3 billion, cut by a downward price spiral and, to a lesser extent, by the slump in Japanese formula feed production and increased South African maize exports to Japan. Sorghum exports were even harder hit, largely because Japanese feed mills resumed buying from Argentina. Soybean exports were also off, declining by one-seventh to $1 billion, but here the result was due entirely to lower U.S. export prices. Similarly, falling farm prices pulled wheat exports down by one-twelfth to under $0.6 billion as shipments held steady. Fruit and vegetable sales were in the negative column as well, partly because of smaller grapefruit exports. On the plus side of the ledger, meat exports rose modestly to $0.5 billion, pushed up by a big increase in beef sales, while fish exports expanded by an equally modest margin to $0.6 billion.

Aggregate export sales were also dampened in 1982 by a 7-percent decrease to $4.4 billion in shipments of capital goods. Sales of commercial aircraft, always a volatile export, were off by a half to just $0.4 billion, and thereby almost single-handedly pulled capital goods exports down. Playing a secondary role in the sales loss were reduced exports of aircraft parts, automotive parts, scientific and professional equipment, machine tools and most other types of specialized industrial machinery, and laboratory testing and controlling instruments, as well as mixed but generally lackluster sales of electric machinery. But not all product groups got trapped by the sluggish state of Japanese plant and equipment investment in 1982 and the strong tone of the dollar. American-made data processing equipment continued to score sales gains, expanding by another eighth to $0.8 billion, while oilwell drilling equipment showed additional big increases. In addition, service industry equipment showed renewed vigor, and measuring and testing equipment posted a modest rise.

Despite depressed conditions in key Japanese industrial sectors, there were enough pockets of demand to lift U.S. sales of industrial supplies 2.1 percent in 1982 to $9.2 billion. Perhaps most important, a turnaround in the Japanese home construction market finally halted the precipitous slide in log and lumber shipments and in fact raised sales marginally to $1 billion. Moreover, coal exports inched up to $1.5 billion, although reduced demand for steam coal cut the volume shipped slightly. Generally modest gains in plastics, fertilizers and insecticides, paper products, tobacco and steel scrap also made a difference. What placed intermediate goods firmly in the plus column, though, was the doubling of petroleum product sales to $0.6 billion and the one-fifth advance, also to $0.6 billion, in exports of inorganic chemicals.

The uneven performance of Japanese industry in 1982 had its counterpart in U.S. exports of industrial supplies, notably in several product groups where American exporters had earlier parlayed cost advantages to make significant inroads in the Japanese market. For example, sales of nonferrous ores and scrap and nonferrous metals, particularly aluminum, were off by a seventh to $0.8 billion, and organic chemical exports edged down to just under $0.7 billion; additionally, paper base stock shipments declined by a ninth to $0.5 billion. On top of these downturns, fairly large cuts occurred in exports of natural gas and nuclear fuels as well as in hide sales. Furthermore, cotton sales marked time at $0.5 billion as lower export prices negated bigger deliveries.

Exports of consumer goods, the only end-use category consistently in the plus column in recent years, were not immune to the effects of the sluggish Japanese economy in 1982, as sales rose by a meager 2.9 percent to $1.4 billion. Once again, though, pharmaceuticals outperformed other product groups, expanding by nearly one-seventh to top the $0.5-billion mark.

These individual product developments were disappointing, but served as a strong reminder that U.S. sales are strongly affected by both the value of the dollar and economic conditions in Japan, neither of which were favorable in 1982. Disappointment over poor sales due to these economic factors can easily emerge back in the United States as complaints about barriers in Japan. While many complaints were legitimate, the importance of economic factors should not be forgotten.

US. Imports from Japan

The flat growth of U.S. purchases from Japan in 1982, which largely reflected a significant cutback in trade during the normally high-volume fourth quarter, mirrored the trend in automotive imports, the largest single product category from Japan. At $12.9 billion, purchases of automotive products were basically unchanged from their year-earlier level. Car imports did creep up to $9.6 billion because of an upgraded product mix; deliveries, however, were off modestly to 1,801,185 units, reduced by the depressed state of the American

automotive market as well as the ceiling on Japanese shipments. Automotive parts eked out a gain, too, hitting $1.5 billion. In contrast, purchases of small pickup trucks contracted by a fifth to $1.5 billion; shipments fell by a slightly larger margin to 354,587 vehicles as the U.S. auto makers, armed for the first time with their own lineup of compact pickups, began to phase out their captive imports. Auto industry developments are considered in greater detail earlier in Part VI.

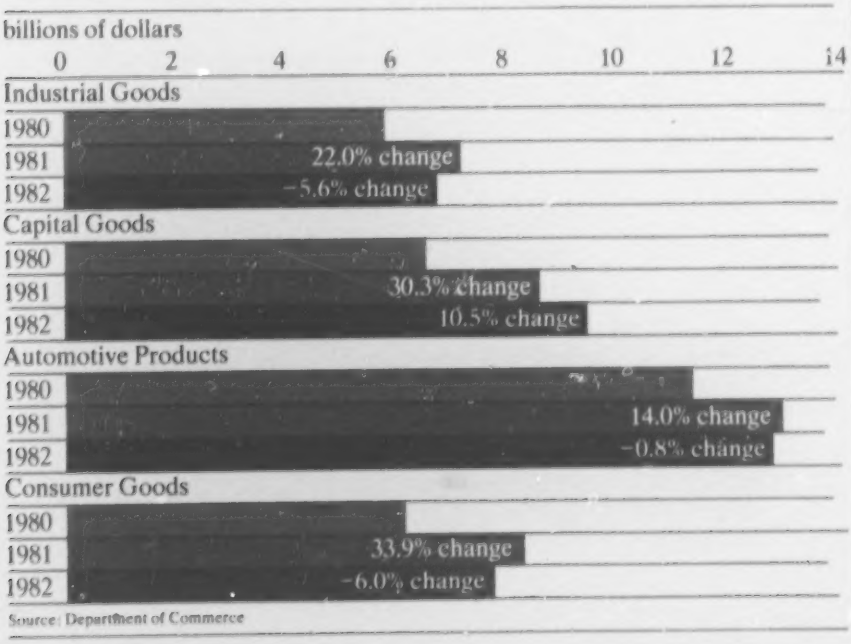
Aggregate purchases from Japan were also held down in 1982 by a 6-percent dip in imports of consumer goods to $7.8 billion. Video and tape equipment, 1981's pacesetters, were down slightly to $1.7 billion, mainly because of the large stocks of unsold video cassette recorders in dealers' hands. Bulging U.S. inventories also explained the one-sixth cutback to $1.1 billion in motorcycle purchases. Reduced American discretionary spending was in evidence as well in the drop of one-tenth to $0.7 billion in purchases of photographic equipment and in scaled-back imports of watches and clocks, television sets, radios and tableware and glassware. With purchases soaring by three-fifths to $0.7 billion, metal cookware and cutlery were really the only major consumer goods imports to exhibit the same vigor as in 1981, although imports of toys and sporting goods and clothing did expand.

A 5.3-percent decline to $6.8 billion in purchases of intermediate goods also contributed to the overall stagnation of imports. This drop primarily reflected a recession-induced cut of the same magnitude in the value of steel mill products, which fell to $3.6 billion in response to a one-sixth reduction in shipments to 5.2 million tons. As detailed earlier in Part VI, however, the poor performance of Japanese steel did not spare Japanese companies from protectionist pressure late in the year. Pared-back purchases of organic chemicals and dips in imports of tires and nonferrous metals also contributed to the downturn in intermediate good arrivals. In fact, textiles were about the only important intermediate good import that managed to increase and then by only a small margin to $0.5 billion.

Capital goods were the exception to the trend of flat or declining imports from Japan in 1982 as purchases expanded 11 percent to $9.5 billion. Imports of business machines remained extraordinarily brisk, with rapidly increasing deliveries of copying machines and data processing equipment propelling purchases up by more than a third to $2.4 billion. Larger purchases of integrated circuits, which doubled in value to $0.5 billion, and telecommunications equipment also helped to boost the import total, as did some rise in arrivals of scientific and professional equipment. Trends in other key capital goods product groups, however, reflected a more accurate picture of the state of U.S. business investment during 1982. Confronted by an already large inventory overhang, importers reduced their purchases of machine tools by one-twelfth to $0.7 billion, while stock adjustments also trimmed imports of specialized industrial machinery, including agricultural, construction and textile machinery.

With the yen so weak during the year, and still undervalued according to some at the end of the year, it is clear that only the U.S. recession prevented imports from rising. Apart from products such as automobiles that were under restraint, faster U.S. economic growth could have pulled in a much larger volume of imports from Japan, and that potential remained for 1983.

U.S. Imports from Japan



Source: Department of Commerce

Direct Investment Activity

Data on foreign investment activity always appear after a considerable delay in both countries. Therefore, most of the statistical data presented here cover 1981 rather than 1982. To provide a broader perspective, data from both countries are presented where possible.

The United States in Japan

During 1981 U.S. direct investment in Japan continued to expand, although at a somewhat slower pace than in some earlier years. This trend was indicative of the expanding U.S. long-term commitment to the Japanese market despite the stagnant trade situation and the rhetoric in Washington about trade barriers.

U.S. Data According to data collected annually by the Department of Commerce, the net book value of U.S. foreign direct investment worldwide rose by $11.8 billion to $227.3 at year-end 1981, for a 5.1 percent increase. This was the lowest rate of expansion in the postwar period. In contrast, investment in Japan was up 9 percent to a total of $6.8 billion. The increase in Japan was higher than the unusually low increase in 1980, when total investments were up only 1 percent, and for 1981, Japan ranked close to the top in the rate of increase among countries in which American companies invested.

As in earlier years, developed countries absorbed most of the increase in U.S. foreign direct investments. For 1981, $8.7 billion flowed to developed countries, or 74 percent of the total increase. Developing countries received the remaining $2.8 billion (with an additional $0.2 billion unallocated). Among the developed countries, though, much more was directed toward Europe than Japan. Investment in European countries accounted for 41 percent of the total increase in investments worldwide, with Britain absorbing 12.5 percent, West Germany 5.6 percent, and the Netherlands 5.4 percent. Japan, on the other hand, received 4.8 percent of the total, despite the fact that in economic terms Japan is larger than any of the European countries.

In terms of net book value of accumulated investments at the end of 1981, investments in Japan were $6.8 billion, or 3.0 percent of the worldwide total. This placed Japan tenth among countries in which U.S. firms invested, the same rank as in 1980. By region, 74 percent of total investments were in developed countries (45 percent of that in Europe), 25 percent in developing countries and 2 percent unallocated. One of the reasons for the continuing low rank of Japan was the rather severe restrictions on foreign direct investment in Japan until the late 1960s which restrained activity.

By sector, new investment was fairly evenly split among petroleum (38 percent), manufacturing (28 percent), and other (33 percent), showing the continued high activity in oil exploration and development in 1981 stemming from the price increases and supply restrictions by OPEC in 1979.

Total investments at yearend 1981 were less evenly divided. Of the $227 billion invested abroad, 23 percent was in petroleum, 41 percent in manufacturing, and 36 percent in other (including 12 percent in trade and 15 percent in banking and other finance. Despite the common image of American manufacturers fleeing to low labor cost countries, the data on the accumulated direct investment position at yearend 1981 showed the majority of manufacturing investment to be in developed countries (79 percent).

Net flows and accumulated total investment patterns were somewhat different for U.S. investment in Japan than worldwide. Whereas net additions worldwide were rather evenly split in 1981, for Japan, 54 percent of U.S. investment was in manufacturing, 30 percent in petroleum and only 16 percent in other. This represented a considerable change from 1980 when American companies carried out a net reduction of their position in the petroleum industry in Japan, an industry that was reeling from declining demand as energy conservation efforts continued. Within manufacturing, American firms made the largest additions to their investments in chemicals ($81 million), transportation equipment ($44 million) and nonelectric machinery ($47 million). Food processing ($30 million) and electric machinery ($26 million) also received substantial infusions.

These additions meant that at yearend, accumulated investments came to $6.8 billion, with 25 percent in petroleum, 48 percent in manufacturing, 18 percent in trade, and only 9 percent in finance and other. Thus, the U.S. position in Japan relative to worldwide remained skewed away from finance, the result of the legacy of careful control over international capital flows and protection for Japanese banking, which did not substantially change until the 1970s.

Japanese Data Each year, the Ministry of International Trade and Industry (MITI) carries out a survey of foreign-affiliated firms in Japan. The latest covers the fiscal year ending March 31, 1981. Begun in 1967, these annual surveys provide data on firms where foreign ownership exceeds 25 percent. Because this is a voluntary survey, however, the results are not based on all foreign-affiliated firms, but only those returning the form (1,224 out of 2,235 sent).

U.S.-affiliated firms were 50.7 percent of the firms completing the survey, not much different from the previous year. However, among firms newly established during FY 1980, U.S.-affiliates were only 30 percent, compared to 34 percent for European firms and 29 percent for Asian firms.

Mirroring the Commerce Department data, the MITI survey shows more than 50 percent of U.S. affiliates in manufacturing, relatively high compared to the 36 percent in manufacturing among European affiliates and the low 7.7 percent for Asian affiliates. Both the Europeans and the Asians had a much higher proportion of their investments in trade.

Because American firms began to invest in Japan actively in the 1950s when strong controls on inward investment were in place, only 42.5 percent of the U.S.-affiliated respondents had a foreign ownership share in excess of 50 percent, little changed from the results of the previous year. This was considerably below the 60 percent for European affiliates and 70 percent for Asian affiliates, which generally date from the years following capital liberalization, when subsidiaries with more than a 50 percent ownership became feasible.

Semiconductor Investment Among the more significant investments being made by U.S. companies in 1982 was the rash of activity by semiconductor manufacturers. This was important because of the persistent complaint of lack of access to the Japanese market and the deep inroads by Japanese manufacturers in the U.S. integrated circuit (IC) market. By early 1982, a number of firms had announced plans to invest in Japan.

Fairchild Camera and Instrument Corporation, the world's number-two semiconductor producer, said in February it would build an IC plant in Nagasaki City in western Kyushu. Construction of a $25-million facility to assemble and test logic circuits and linear ICs for exclusive sale in Japan began in October, with production slated to start in 1983. A wafer-processing facility, projected to cost $63 million, was to be completed by 1985.

Fairchild joined Motorola, Inc., in making a second attempt to carve out an IC manufacturing base in Japan, although Motorola followed a different route in reentering the Japanese market. In late 1980, Motorola purchased a 50-percent share in Aizu-Toko Inc., until then a wholly owned subsidiary of Japanese electronic components maker Toko, Inc. Aizu-Toko, which produced metal-oxide-silicon (MOS) digital circuits at a plant north of Tokyo, added a number of Motorola's MOS products to its production line, with the Japanese automotive industry the main buyer of the logic devices manufactured.

Becoming operational in 1982 was a plant constructed west of Tokyo by Analog Devices, Inc., the top American maker of linear ICs and the largest supplier of analog devices to the Japanese merchant market. The factory was assembling and testing linear circuits made from imported wafers at the rate of 2 million units a year, but representatives of the firm did not rule out a

front-end operation in Japan for digital-to-analog and analog-to-digital converters and related ICs, an area where Japanese makers had not yet become active.

A number of other American semiconductor manufacturers appeared close to a decision on production in Japan in 1982. Expected to make an announcement first was Intel Corporation, which had space for a manufacturing facility at its design center outside of Tokyo. Also actively eyeing the Japanese market was Advanced Micro Devices, Inc.

All of these companies followed in the path of Texas Instruments Inc. (TI), which had been manufacturing semiconductors in Japan since 1968, first in a joint venture with Sony Corporation and since 1972 on its own. TI had three plants in operation in Japan by 1982, turning out a variety of logic and memory devices, including 64K RAMs at its newest factory in Miho, near Tokyo. These factories, which together spanned the complete semiconductor production process from wafer fabrication through final assembly and testing, were said to surpass plants operated by Texas Instruments in other countries in productivity, profit/equity ratios and product quality.

These aggressive moves, combined with a similar expansion of investment by semiconductor production equipment manufacturers in Japan, suggest that despite complaints about Japan, the industry continued to make moves to consolidate its position in that market. Because of its role as a leading high technology industry, and the bilateral high technology agreement worked out in the fall (discussed earlier in Part VI), developments in the semiconductor industry were the subject of interest to both governments.

Japan in the United States

In contrast to the relatively slow growth of U.S. foreign direct investment, Japanese investment expanded at a brisk pace—both worldwide and in the United States.

U.S. Data According to Commerce Department data, 1981 brought a record 31-percent increase in direct investment in the United States by foreign firms, continuing a pattern of rapid growth that began in 1978. Japanese firms were no exception, expanding their investments by an enormous 63 percent, or $2.7 billion, giving them a total of $6.9 billion in investments at yearend 1981. New investments by Japanese firms were 12 percent of total new investments by foreign firms, placing it only slightly behind traditional heavy investors such as Britain and the Netherlands.

Much of the surprising strength of investment in 1981 may have come to an end in 1982 as indicated below in the JEI survey of Japan's manufacturing investments. The dollar was fairly steady on foreign exchange markets in 1981, which may have encouraged investment. The overall economic climate in the United States was also more favorable in 1981 as well.

Despite the heavy additions to Japan's investments in the United States during 1981, the position at yearend remained relatively small. The $6.9 billion invested by Japanese firms was only 8 percent of the $89.8 billion invested by all countries. One reason for this disparity between Japan's position as the second largest market economy and its small direct investment position in the United States was due to its position as a relative newcomer to investing abroad. As of yearend, Japan was far behind such countries as the Netherlands (22 percent of foreign direct investment in the United States), Britain (17 percent) and Canada (14 percent).

By industry, Japanese investment in the United States remained heavily skewed from the pattern for companies from other countries. The largest single sector of investment was trade ($4.1 billion), representing 60 percent of Japanese investments, whereas for all countries, investment in the trade sector was only 20 percent. Manufacturing, on the other hand, was 16 percent of Japanese investments but 33 percent of investments by all countries. Other sectors where Japanese firms had a relatively small presence were insurance and petroleum.

New investments during 1981 did little to alter this skewed pattern of investment. Of the $2.7 billion in new investments, $1.8 billion, or 67 percent, went to the trade sector, and only 10 percent went to manufacturing. This indicates that the Japanese preference for export of manufactures from Japan, supported by an extensive trade infrastructure abroad, over local manufacture in foreign markets, continued.

For 1981, fully 80 percent of the increase in investment in U.S. foreign affiliates of all countries came from equity purchases and inter-company account flows, representing an inflow of capital from abroad. Only 20 percent came from reinvested earnings. For Japanese affiliates the picture was essentially the same, with 75 percent of new investment from equity purchases and inter-company account flows and 25 percent from reinvested earnings. The only exception was in manufacturing, where a somewhat higher 33 percent came from reinvested earnings.

As in the previous year, though, Japanese affiliates continued to outpace other companies in the ratio of reinvested earnings to total earnings. This reinvestment ratio was 90 percent for Japanese affiliates and 67 percent for all foreign affiliates. These ratios were essentially unchanged from 1980.

Japanese affiliates were also somewhat more profitable than those of other countries. Compared to the 9.8 percent rate of return (income divided by average direct investment position for the year) for all affiliates, Japanese affiliates managed a 13.8 percent rate of return. This exceeded the return for Canadian affiliates (2.2 percent) and European firms (10.7 percent).

Japanese Data The latest available Japanese data of foreign direct investment is for the end of FY 1981—March 31, 1982. Reinforcing the results for investment in the United States shown by Commerce Department data for calendar year 1981, Japanese data show a rapid expansion. Worldwide foreign direct investment by Japanese companies spurted 89.8 percent during FY 1981, bringing the cumulative total of Japan's foreign direct investments to $45 billion, as discussed in Part IV. Mirroring the overall trend shown in the Japanese statistics, a record $2.5 billion was invested in the United States ($2.3 billion) and Canada ($0.2 billion), or 56.5 percent more than in FY 1980. This coincided closely with the $2.7 billion increase measured for the calendar year by the Commerce Department. With this advance, moreover, cumulative Japanese investment in North America reached $12.3 billion, or 27.4 percent of total overseas investments. Over $11.2 billion of this amount was invested in the American affiliates of Japanese companies, including $2.3 billion during the April 1981-March 1982 period, which placed the United States well ahead of Indonesia ($6.9 billion) and Brazil ($3.2 billion) as the prime location abroad for Japanese corporate investors. The United States

and Canada stood out particularly in the area of overseas sales affiliates, accounting for over three-fifths of the total.

Update of JEI Manufacturing Investment Survey

The JEI annual survey of Japanese manufacturing investments in the United States provides a partial glimpse of investment activity in 1982 , a year beyond the overall data presented above. The fall in the value of the yen on foreign exchange markets until late in 1982 plus the recession in the United States and reduced profits among Japanese companies in Japan all acted to dampen Japanese investment activity in U.S. production facilities. New plant construction and acquisition activity dropped in 1982 to its lowest level since at least 1978, the start of the second upsurge in Japanese investment in the American manufacturing sector.

1982 Investments Only 19 manufacturing companies in which Japanese corporate investors had a majority stake were set up or acquired in 1982, compared with 32 such investments in 1981. Moreover, Japanese corporations obtained minority interests of at least 10 percent but less than 50 percent in just three U.S. businesses during 1982, down from eight the year before.

The depreciation of the yen, which was dropping from December 1981 to early November 1982 (see Part III) was probably the major obstacle to greater Japanese investment in U.S. manufacturing facilities during the year. The fall in the yen's value had two effects: it boosted the yen cost of building plants in the United States or of acquiring existing American companies and, at the same time, increased the price competitiveness of Japanese exports, thereby making production in the United States a relatively less attractive way of serving U.S. markets. Potential first-time Japanese investors, particularly small- and medium-sized firms, were also deterred by two consecutive years of mediocre business results (discussed in Part IV), which dictated a wait-and-see attitude toward capital spending. For some Japanese companies, the deepening recession in the United States was the determining factor, forcing them to indefinitely shelve or at least temporarily postpone firm plans for U.S. plants.

The 22 American manufacturing companies owned wholly or in part by Japanese investors that were identified in JEI's 1982-update survey generally matched the profile of Japan's earlier manufacturing investments in the United States, drawn from the 1980 JEI benchmark study and the 1981 update. (The benchmark study and the 1981 update are available from JEI.) Like their predecessors, Japanese corporations establishing a production base in the United States during 1982 favored new plant construction over the purchase of existing American firms, but for the second year in a row acquisitions were relatively more prevalent than in the period through 1980. Instead of being outnumbered two to one by new investments, acquisitions accounted for 10 of the 22 companies joining the ranks of Japanese-affiliated U.S. manufacturing businesses in 1982, including the purchase by Bridgestone Tire Co., Ltd. of Firestone Tire & Rubber Co.'s radial truck tire plant.

One factor tilting the investment mix toward acquisitions in the 1980s was that Japanese manufacturers already turning out products in the United States were starting to follow the lead of the trading companies by expanding their manufacturing presence through takeovers. Sony Corp. and Kirin Brewery Co., Ltd. were the major examples of this new breed of Japanese investor in 1982.

With new plant construction still the preferred investment route for Japanese investors moving into the U.S. manufacturing sector for the first time, and with most acquisitions involving the purchase of single-plant companies, the result was that the 22 American production operations newly set up or bought by Japanese businesses in 1982 had only 24 plants onstream or under construction at yearend. The vast majority of established Japanese-owned manufacturing ventures still produced at just one location, but a growing number of them were building additional plants as they outgrew existing production facilities or expanded into related product lines. Examples of this trend in 1982 were the new factory opened by Mitsubishi Consumer Electronics America, Inc. and the plant NEC Electronics U.S.A. Inc. had under construction.

California continued to attract a disproportionate share of Japanese manufacturing investment during 1982, including both new investments and acquisitions. Five of the 24 plants in operation or under construction at yearend were located there, as were the second plants of Mitsubishi Consumer Electronics and NEC Electronics. New Jersey and Georgia were also highly successful in drawing Japanese-owned factories, with each adding two new plants. So was Pennsylvania with one new investment and an acquisition. New plant construction in Massachusetts, Missouri and Oregon and acquisitions in Michigan, New Hampshire and Washington proved once again that, outside of California, Japanese corporate investors in the United States did not show a marked preference for Sunbelt or southeastern U.S. production locations, although Florida as well as Tennessee picked up a Japanese-owned factory through acquisition.

One area where the 19 majority-owned companies new to the U.S. manufacturing sector differed from established firms was in employment scale, since they employed or expected to hire when operational smaller work forces on average than earlier arrivals. Nine of the 19 had or projected a payroll of 49 people or less, compared with only one-fourth of the companies identified in JEI's benchmark study. Four employed between 50 and 99 workers or had targeted employment in that range, while three had a work force of 100 to 199 people. In contrast, just two firms had or forecasted employment in the 300 to 500 range, a level exceeded only by Bridgestone Tire Manufacturing (U.S.A.), Inc. with 900 employees. In total, new plants opened in 1982 generated close to 2,300 jobs, while an additional 700 jobs were expected at the plants still under construction at the end of the year.

Accumulated Total At the end of 1982, Japanese corporate investors had a controlling interest in 292 U.S. manufacturing companies, including Nissan Motor Manufacturing Corp. U.S.A. and four other firms that were still in the plant-construction state.

Among the largest operations, whether measured by investment, employment, sales or all three indicators, were Alumax Inc., an integrated aluminum manufacturer jointly owned by Mitsui & Co., Ltd., Nippon Steel Corp. and AMAX Inc. that had 55 domestic plants; Honda of America Manufacturing, Inc., which started assembling cars at its Ohio plant in November and expected to employ 2,000 people by mid-1984; Kyocera International, Inc., a California-based maker of integrated

circuits; Matsushita Industrial Co., a manufacturer of color television sets and microwave ovens located in the Chicago suburbs; Nissan, slated to begin operation of its Tennessee pickup truck plant in the summer of 1983 and to employ 2,650 workers at full capacity in mid-1984; Sanyo Mfg. Corp., which produced color television sets and microwave ovens in Arkansas; color television set maker Sony Corp. of America, based in California; Sony Magnetic Products Inc. of America, an Alabama manufacturer of cassette tapes; and Whitney-Fidalgo Seafoods, Inc., an Alaska and Washington fish processor owned by Kyokuyo Co., Ltd.

In addition to these 292 U.S. manufacturing ventures, which were primarily wholly owned subsidiaries, Japanese corporations held minority interests in 26 other American manufacturers, including shares in two companies on *Fortune*'s list of the 1,000 largest domestic firms, Harnischfeger Corp., and Munsingwear, Inc.

The 318 U.S. manufacturing companies owned wholly or in part by Japanese investors had 458 plants in operation or under construction at yearend 1982. California, home to 125 Japanese-affiliated factories, continued to top the state list of plants sites with its heavy concentration of facilities making industrial and consumer electronic products. In the number-two spot was Alaska, with fish-processing plants accounting for most of its 35 factories. Next on the list were New Jersey, the site of 24 manufacturing concerns owned by Japanese companies, Texas, the location of 23 plants, and Washington, where 20 factories were in operation. In sixth place was Georgia with 18 manufacturing facilities, followed by Illinois and North Carolina, each of which had attracted 17 plants. Other states that were successful in drawing relatively large numbers of Japanese investors to in-state plant sites were New York (16), Pennsylvania (14), Ohio (13), Michigan (12) and Tennessee (11).

Color television sets, stereo equipment, microwave ovens, integrated circuits, telephone equipment, capacitors, bearings and machine tools were among the product lines where Japanese companies had the largest number of U.S. manufacturing facilities. In deciding to supply these products from onshore plants rather than from factories in Japan, Japanese exporters were influenced in varying degree by the need to cut transportation costs, streamline distribution, maintain closer customer contact and offset the yen's appreciation. For many makers of these products, though, the threat of protectionist trade barriers in the United States tipped the scales in favor of U.S. production. In other manufacturing lines where Japanese investors were well represented, like fish processing, lumber and wood products, and certain processed food products, the availability of raw materials was a major drawing card. Makers of plastic products were attracted to the United States by less expensive petrochemical derivatives, while lower utility rates and other U.S. cost advantages no doubt made Alumax a good investment for Mitsui and Nippon Steel. Other Japanese Companies, facing limited opportunities for growth at home, moved into the U.S. manufacturing sector to boost revenues and income. Finally, a small but increasing number of parts suppliers, especially in the automotive field, began following Japanese end users of their products to the United States.

Although the number of U.S. manufacturing companies owned wholly or in part by Japanese corporations was still modest in comparison with Canadian and European investments, these firms were starting to have a noticeable impact in creating or maintaining jobs for Americans, both directly and indirectly through their purchases of goods and services. The 292 majority-owned manufacturing concerns in operation in 1982 had an estimated 65,600 people on their payrolls. Another 4,400 or so positions would be added to this total in 1983 and in 1984 as the Honda and Nissan automotive plants still under construction at the end of 1982 came onstream.

Appendix A State Buy-American Survey

The following information is based primarily on the responses to a September 1982 questionnaire sent by the Japan Economic Institute to all state attorneys general, highway administrators, and purchasing agents. Spreading buy-American practices are discussed in Part VI.

States with Buy-American Restrictions

Alabama

There are no statutory restrictions, although Alabama products and firms are given preference. The Department of Highway's specifications provide, however, that all steel products that are to be part of any finished highway or bridge construction must be manufactured, processed, rolled and fabricated in the United States, its territories or possessions.

Alaska

When practicable, state law requires the use of Alaskan forest products in state-financed projects. In-state producers and dealers are to be given preference whenever practicable, price and quality being equal.

Connecticut

While there are no statutory restrictions, the Department of Transportation's specifications for roads and bridges state that structural steel, regardless of its source, must be fabricated in the United States.

Hawaii

The Hawaii statutes provide that "in all expenditures of public money for any public work or in the purchase of materials or supplies, preference shall be given to American products, materials and supplies."

Illinois

Although there are no statutory restrictions, the Department of Transportation's specifications for road and bridge construction ban the use of foreign-manufactured steel structural shapes, plates, bars, pipes and tubing, and sheet and H piling on state and locally funded projects. State purchasing regulations provide that an in-state bidder for a public contract be given a preference against a non-resident bidder from a state that gives or requires a preference to bidders from that state.

Indiana

By law, only steel products manufactured in the United States can be used for contracts let by state or local government units for the construction, alteration or maintenance of public works. This provision can be waived if it is determined that domestically made steel is not available in sufficient quantity to meet the contract requirements or that the cost of American-produced steel is unreasonable. Generally, a 15-percent price differential is applied in determining whether the cost of domestic steel products is reasonable; however, a 25-percent differential is used if it is concluded that the use of American steel "would benefit the local or state economy through improved job security and employment opportunity." At present, the Department of Highways is exempting materials for prestressed concrete products and steel extrusions used in the fabrication of bridge expansion joints from the buy-American specifications. In addition, it is apparently state policy to buy only U.S. motor vehicles.

Iowa

By law, preference is to be given to American-made products and American-based businesses if life-cycle costs are comparable to those of foreign products. In addition, the Department of Transportation's specifications for highway and bridge construction provide that all fabrication of structural steel must occur in North America.

Kansas

The state director of purchases has the statutory authority to reject contracts for or purchases of products manufactured or assembled outside the United States. This authority, which has not been used since the Kansas statutes were amended in 1981, applies to all procurement for state agencies except construction and maintenance of the state highway system. The Department of Transportation's specifications provide that all structural steel used in highway projects be produced and fabricated within the continental United States.

Kentucky

The state has no statutory restrictions but, as a matter of policy, the Department of Transportation requires that all major structural steel and aluminum components of state-funded bridges, tunnels and sign-support systems, for which shop fabrication, shop inspection and/or certified mill tests are necessary, be produced, milled, fabricated and manufactured in the United States.

Louisiana

The state is required by law to purchase only American automobiles. In addition, the Office of Highways' specifications for roads and bridges provide that all structural steel is to be fabricated in the United States. In-state products receive a 5-percent price preference.

Maine

The state has no statutory restrictions, although it does grant in-state bidders a 5-percent price preference. On state-funded projects, however, the Department of Transportation allows only the use of structural steel manufactured (including rolled and shop fabricated) in the United States. For road and

bridge projects crossing the United States-Canada border. Canadian structural steel may be used as well.

Maryland

By law, only steel manufactured in the United States can be used for the construction or maintenance of buildings, roads, bridges and other public works or for the purchase or manufacture of any piece of machinery or equipment that contains at least 10,000 pounds of steel and is to be installed at a public-works site. In general, American-made steel receives a 20-percent price preference; however, if the steel is produced in a labor-surplus area as defined by the U.S. Department of Labor, a 30-percent differential is applied. These regulations can only be waived if there is an insufficient domestic supply of a steel product or if the purchase of American-made steel would not be in the public interest.

Massachusetts

By law, when all else is equal, preference in the purchase of supplies and materials is to be given, first, to products manufactured and sold within the state and, second, to goods manufactured and sold elsewhere in the United States. In addition, Department of Public Works specifications provide that all structural steel, regardless of its source, must be fabricated in the United States.

Michigan

There are no statutory restrictions, but the Department of Transportation's specfications require that all structural steel shall be fabricated in the United States.

Minnesota

State law mandates that, when all other factors are substantially equal, preference is to be given to those products that are manufactured to the greatest extent in the United States. In addition, the law provides that, to the extent possible, specifications are to be written so as to permit the state to purchase materials manufactured in the United States. In determining whether all other factors are substantially equal, availability, quality, the public interest and price are to be taken into consideration. As currently applied by the Department of Transportation, the following products are exempted from the law's coverage: petroleum products, portland cement, bridge expansion joint devices, steel pile shells for concrete piling, prestressing tendons for concrete beams, and high-strength structural steel bolts.

Mississippi

Although there are no statutory restrictions, the Department of Highways' specfications provide that only domestic steel and wire products, including prestressed cable and strand, may be used in the construction of state highways and bridges. Moreover, all paint and paint components used in road and bridge construction must be manufactured in the United States.

Montana

There are no statutory restrictions, although in-state vendors receive a 3-percent price preference. The Department of Highways' specifications state, however, that only domestic highway and bridge construction materials can be used.

Nebraska

Although there are no statutory restrictions, the Department of Roads' specifications provide that all fabrication of structural steel must occur on the North American continent.

Nevada

The state has no statutory restrictions but, as a matter of policy, the Department of General Services' Division of Purchasing prohibits the purchase of foreign-made automotive products by state agencies.

New Hampshire

The state has no statutory restrictions, but the standard specifications of the Department of Public Works and Highways state that "all structural steel shall be restricted to that which has been rolled and fabricated in the United States."

New Jersey

New Jersey law specifies that domestic materials must be used for public-works projects unless the cost of an American-made product is unreasonable, its use would not be in the public interest or it is not available in commercial quantities. State law also provides that only manufactured and farm products of the United States can be used in work contracted by counties and municipalities. Moreover, the purchase of American-made motor vehicles is legally mandated. This requirement expires two years after its October 7, 1980 effective date.

New Mexico

By law, state agencies may only purchase cars and trucks assembled in North America. In-state manufacturers receive a 5-percent price preference.

New York

Under current law, all contracts valued over $100,000 for the construction, alteration or maintenance of public works require the use of structural steel, reinforcing steel and/or other major steel products manufactured in whole or substantial part in the United States, its territories or possessions. A department or agency head can waive this requirement if he determines that it would not be in the public interest, would result in unreasonable costs or that domestic steel is not available in sufficient quantity or satisfactory quality. This law, effective October 29, 1981, expires on June 30, 1983. A 1980 law with the same expiration date provided that preference be given to materials or equipment made or fabricated from domestic steel. Excluded from this law's coverage were automotive products assembled in Canada.

North Dakota

There are no statutory restrictions but, as a matter of policy, the Office of Management and Budget's State Purchasing Division will not purchase foreign-made cars and trucks for state use.

Ohio

By law, only domestically produced steel products can be used for state-supported construction, alteration and maintenance projects.

Oklahoma

All state governmental bodies are required by statute to purchase goods and equipment manufactured or produced in the United States unless a foreign-made product is substantially cheaper and of equal quality, or is of superior quality to competing American products and is sold at a comparable price.

Pennsylvania

Under the Steel Products Procurement

Act, all contracts for the construction, alteration or maintenance of public works let by state or local governmental units require the use of iron and steel products produced in the United States. The only exception to this requirement is if an agency head determines that iron and steel products are not produced in sufficient quantity in the United States to meet the contract specifications. In addition, the Trade Practices Act prohibits the purchase of steel and aluminum products for use in a public-works project from a country that is found to discriminate against products manufactured in Pennsylvania.

Rhode Island

State law requires the use of domestic steel products for state and local government public-works construction, alteration and maintenance projects unless it costs 15-percent more than imported steel or is not readily available in the United States.

South Dakota

There is an absolute ban on meat not produced in the United States.

Texas

The State Purchasing and General Services Commission is required by law to give preference in purchasing products to in-state manufacturers and vendors if the cost to the state and quality are "substantially equal." If these conditions are not met, then preference is to be given to products manufactured in other states if all else is "substantially equal." In determining whether the cost to the state is substantially equal, a 2-percent price preference is applied.

Vermont

Although there are no statutory restrictions, the Agency of Transportation specifies that all structural steel, regardless of its source, must be fabricated in the United States.

Virginia

By law, all contracts valued over $50,000 for the construction, alteration or maintenance of public works require the use of steel products manufactured in the United States. An agency head can waive this requirement if domestic steel products are not produced in sufficient quantity or are not sufficiently available to meet the contract provisions or if the cost of domestic steel products is unreasonable; however, the price of American-made steel products is not considered unreasonable unless it is 10-percent higher than the price of imported steel products. This provision, signed into law on March 20, 1981, expires on June 30, 1986.

Washington

While there are no statutory restrictions, Department of Transportation specifications for road and bridge construction require the use of American-made materials, but the conditions under which foreign-manufactured materials can be used appear to be fairly liberal.

West Virginia

By law, only aluminum, glass and steel products manufactured in the United States can be used for the construction, alteration or maintenance of public works or for the purchase of machinery and equipment for use at a public-works site. In general, American-made products receive a 20-percent price preference; however, if the products are produced in a labor-surplus area as defined by the U.S. Department of Labor, a 30-percent differential applies. These regulations, which apply to public-works contracts valued over $50,000, can be waived only if there is an insufficient domestic supply of aluminum, glass or steel products or if the purchase of American-made products would not be in the public interest. In addition, it is state policy to buy American-built automotive products.

Wisconsin

The Wisconsin statutes provide that the state shall purchase materials that are manufactured to the greatest extent in the United States when all other factors, such as quality and cost, are equal. Moreover, specifications for materials are to be written to the extent possible to insure the purchase of materials manufactured in the United States.

Wyoming

By law, only meat produced and processed in the United States can be purchased for use in a state institution. In addition, the Highway Department's specifications for road and bridge construction prohibit the purchase of foreign-manufactured structural steel.

States with No Buy-American Restrictions

Arizona

No restrictions, although in-state manufacturers and vendors receive a 5-percent price preference for products and materials used in public-works projects.

Arkansas

No restrictions, but in-state firms receive a 5-percent price preference.

California

No restrictions.

Colorado

No restrictions.

Delaware

No restrictions.

Florida

No restrictions.

Georgia

No restrictions.

Idaho

No restrictions.

Missouri

No restrictions, although in-state products and vendors are given preference.

North Carolina

No restrictions, but in-state manufacturers and vendors are given preference.

Oregon

No restrictions, but the Oregon Revised Statutes state that "in all public contracts, the public contracting agency shall prefer goods or services that have been manufactured or produced in this state if price, fitness, availability and quality are otherwise equal."

South Carolina

No restrictions, but in-state manufacturers receive a slight preference at certain dollar levels for specific projects.

Tennessee

No restrictions; however, the Department of Transportation has asked the General Services Department's Purchasing Division to buy only American-made surveying equipment because of some problems with the availability of parts and service for foreign-manufactured equipment.

Utah

No restrictions.

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Table 1: Japan's Gross National Product at 1975 Constant Prices, 1978-1982

(in billions of yen, seasonally adjusted, quarterly totals at annual rates)

	1978	1979	1980	1981	1982(p)
Gross National Product	¥172,133.4	¥181,136.8	¥189,787.2	¥197,065.0	¥202,925.1
	(5.1%)	(5.2%)	(4.8%)	(3.8%)	(3.0%)
Personal Consumption Spending	94,967.8	100,606.3	101,871.8	102,428.9	106,772.5
	(4.7%)	(5.9%)	(1.3%)	(0.6%)	(4.2%)
Private Residential Construction Investment	12,309.0	12,180.6	11,032.9	10,751.2	10,642.2
	(6.6%)	(-1.0%)	(-9.4%)	(-2.6%)	(-1.0%)
Private Fixed Nonresidential Investment	26,597.2	29,738.8	32,129.2	33,920.2	34,556.1
	(6.6%)	(11.8%)	(8.0%)	(5.6%)	(1.9%)
Change in Business Inventories	548.4	1,694.6	1,865.3	1,446.9	1,275.3
	(-32.8%)	(209.0%)	(10.1%)	(-22.4%)	(-11.9%)
Government Current Expenditures	16,680.4	17,391.9	17,895.0	18,726.4	19,379.8
	(5.1%)	(4.3%)	(2.9%)	(4.7%)	(3.5%)
Government Fixed Investment	17,841.8	18,403.2	17,814.6	18,761.8	18,893.2
	(16.1%)	(3.1%)	(-3.2%)	(5.3%)	(0.7%)
Change in Government Inventories	417.3	114.9	-228.4	-270.1	-308.3
	(23.9%)	(-72.5%)	(*)	(*)	(*)
Net External Sector	2,771.5	1,006.4	7,406.8	11,299.5	11,714.3
	(-33.5%)	(-63.7%)	(636.0%)	(52.6%)	(3.7%)
Exports of Goods and Services and Factor Income Received	26,649.5	28,396.4	33,722.2	39,074.6	40,347.5
	(0.2%)	(6.6%)	(18.8%)	(15.9%)	(3.3%)
Imports of Goods and Services and Factor Income Paid	23,878.0	27,390.0	26,315.4	27,775.1	28,633.2
	(6.5%)	(14.7%)	(-3.9%)	(5.6%)	(3.1%)

(continued)

Table 1: Japan's Gross National Product at 1975 Constant Prices, 1978-1982 (continued)

(in billions of yen, seasonally adjusted, quarterly totals at annual rates)

	January-March 1981	April-June 1981	July-September 1981	October-December 1981	January-March 1982	April-June 1982	July-September 1982	October-December 1982(p)
Gross National Product	¥194,592.7 (3.7%)	¥196,855.9 (4.7%)	¥198,534.7 (3.5%)	¥198,009.0 (-1.1%)	¥198,754.9 (1.5%)	¥202,624.0 (8.0%)	¥204,511.6 (3.8%)	¥205,426.3 (1.8%)
Personal Consumption Spending	101,641.1 (-2.1%)	102,295.1 (2.6%)	102,457.7 (0.6%)	103,311.0 (3.4%)	104,308.4 (3.9%)	106,674.8 (9.4%)	107,118.8 (1.7%)	108,711.2 (6.1%)
Private Residential Construction	10,777.2 (8.5%)	11,003.4 (8.7%)	10,672.2 (-11.5%)	10,523.7 (-5.5%)	10,362.8 (-6.0%)	10,451.8 (3.5%)	10,514.1 (2.4%)	11,297.3 (33.1%)
Private Fixed Nonresidential Investment	33,523.4 (8.6%)	33,985.4 (5.6%)	33,883.5 (-1.2%)	34,294.7 (4.9%)	34,319.7 (0.3%)	34,504.3 (2.2%)	34,725.1 (2.6%)	34,666.3 (-0.7%)
Change in Business Inventories	1,697.3 (-10.1%)	1,369.9 (-57.6%)	760.3 (-90.5%)	1,962.1 (3,435.0%)	1,567.8 (-40.8%)	1,447.6 (-27.3%)	1,143.6 (-61.1%)	945.6 (-53.3%)
Government Current Expenditures	18,635.0 (9.9%)	18,584.5 (-1.1%)	18,740.3 (3.4%)	18,957.8 (4.7%)	19,068.4 (2.4%)	19,362.1 (6.3%)	19,509.1 (3.1%)	19,589.7 (1.7%)
Government Fixed Investment	18,517.8 (-1.5%)	18,334.0 (-3.9%)	19,330.0 (23.6%)	18,708.2 (-12.3%)	17,911.7 (-16.0%)	18,758.2 (20.3%)	19,793.6 (24.0%)	18,940.3 (-16.2%)
Change in Government Inventories	-86.1 (*)	-73.3 (*)	-249.1 (*)	-656.0 (*)	-114.3 (*)	11.9 (*)	-264.7 (*)	-865.5 (*)
Net External Sector	9,886.9 (14.3%)	11,357.0 (74.0%)	12,939.8 (68.5%)	10,907.1 (-49.5%)	11,330.6 (16.5%)	11,413.3 (3.0%)	11,972.0 (21.1%)	12,141.4 (5.8%)
Exports of Goods and Services and Factor Income Received	36,541.6 (17.6%)	38,838.0 (27.6%)	41,076.8 (25.1%)	39,776.7 (-12.1%)	40,365.4 (6.1%)	40,119.9 (-2.4%)	41,146.2 (10.6%)	39,831.6 (-12.2%)
Imports of Goods and Services and Factor Income Paid	26,654.7 (18.8%)	27,481.0 (13.0%)	28,137.0 (9.9%)	28,869.6 (10.8%)	29,034.8 (2.3%)	28,706.6 (-4.5%)	29,174.2 (6.7%)	27,690.2 (-18.8%)

*Cannot be calculated.

Source: Economic Planning Agency

Table 2: Major Interest Rates in Japan, 1978-1982

(percent per annum)

		Central Bank Discount Rate*	Short-Term Prime Lending Rate*	Call Rate**	Average Interest Rate on Loans and Discounts of All Banks*	Savings Deposits*			
						Commercial Banks		Post Office	
						Ordinary Deposits	Six-Month Time Deposits	Ordinary Deposits	One-Year Savings Certificates
1978		3.5%	3.75%	4.36%	5.95%	1.0%	3.75%	2.4%	3.0%
1979		6.25	6.5	6.34	7.06	2.0	5.25	3.36	4.5
1980		7.25	7.5	10.93	8.27	2.75	6.25	4.08	5.5
1981		5.5	6.0	7.43	7.56	2.25	5.5	3.6	4.75
1982		5.5	6.0	6.94	7.15	1.75	5.0	3.12	4.25
1981	January	7.25	7.5	8.91	8.14	2.75	6.25	4.08	5.5
	February	7.25	7.5	8.60	8.09	2.75	6.25	4.08	5.5
	March	6.25	6.75	8.04	8.02	2.75	6.25	4.08	5.5
	April	6.25	6.75	7.19	7.90	2.25	5.5	3.6	4.75
	May	6.25	6.75	7.06	7.79	2.25	5.5	3.6	4.75
	June	6.25	6.75	7.12	7.70	2.25	5.5	3.6	4.75
	July	6.25	6.75	7.26	7.67	2.25	5.5	3.6	4.75
	August	6.25	6.75	7.24	7.65	2.25	5.5	3.6	4.75
	September	6.25	6.75	7.26	7.64	2.25	5.5	3.6	4.75
	October	6.25	6.75	7.05	7.64	2.25	5.5	3.6	4.75
	November	6.25	6.75	6.80	7.63	2.25	5.5	3.6	4.75
	December	5.5	6.0	6.70	7.56	2.25	5.5	3.6	4.75
1982	January	5.5	6.0	6.58	7.46	1.75	5.0	3.12	4.25
	February	5.5	6.0	6.58	7.34	1.75	5.0	3.12	4.25
	March	5.5	6.0	6.68	7.26	1.75	5.0	3.12	4.25
	April	5.5	6.0	7.16	7.24	1.75	5.0	3.12	4.25
	May	5.5	6.0	7.17	7.22	1.75	5.0	3.12	4.25
	June	5.5	6.0	7.19	7.19	1.75	5.0	3.12	4.25
	July	5.5	6.0	7.19	7.17	1.75	5.0	3.12	4.25
	August	5.5	6.0	7.18	7.17	1.75	5.0	3.12	4.25
	September	5.5	6.0	6.99	7.18	1.75	5.0	3.12	4.25
	October	5.5	6.0	6.92	7.18	1.75	5.0	3.12	4.25
	November	5.5	6.0	6.69	7.17	1.75	5.0	3.12	4.25
	December	5.5	6.0	6.92	7.15	1.75	5.0	3.12	4.25

*End of period
**Average for period

Source: Bank of Japan

Table 3: Money Supply in Japan, 1978-1982

(in billions of yen, average for period)

		Outstanding Money Supply (M_2+CDs)*	Change Over Year-Earlier Period
1978		¥162,020	11.7%
1979		181,223	11.9
1980		197,872	9.2
1981		215,527	8.9
1982		235,336	9.2
1981	January	205,830	7.4
	February	204,895	7.6
	March	208,085	7.7
	April	211,326	7.9
	May	211,907	7.5
	June	215,796	8.3
	July	217,659	9.0
	August	218,581	9.6
	September	219,980	10.1
	October	220,066	10.8
	November	222,058	10.4
	December	230,137	10.5
1982	January	227,872	10.7
	February	226,605	10.6
	March	229,899	10.5
	April	231,023	9.3
	May	231,816	9.4
	June	234,802	8.8
	July	237,793	9.3
	August	238,272	9.0
	September	239,449	8.9
	October	238,382	8.3
	November	239,866	8.0
	December	248,254	7.9

*Includes currency in circulation, demand deposits and time deposits (excluding trust accounts) held by commercial banks, plus certificates of deposit.

Source: Bank of Japan

Table 4: Japan's Industrial Production Index by Sector, 1978-1982

(1975 = 100)

		Total Index	Total Change Over Year-Earlier Period	Mining	Manufacturing	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery
1978		122.9	6.2%	105.7	123.0	110.1	135.0	135.4	126.0	155.2
1979		133.1	8.3	101.0	133.3	122.6	142.8	136.6	143.7	177.2
1980		142.4	7.0	99.6	142.7	124.8	143.5	132.3	159.6	212.2
1981		146.8	3.1	96.2	147.2	117.4	139.0	124.7	162.7	256.0
1982		148.4	1.1	94.6	148.8	114.9	136.4	127.8	161.3	282.7
1981	January	130.4	3.4	96.2	130.6	113.7	126.8	110.3	145.4	200.4
	February	139.7	-0.5	97.7	140.0	110.8	132.7	118.0	156.9	230.6
	March	152.9	1.4	103.6	153.2	117.1	141.8	128.5	178.3	256.4
	April	147.4	0.4	97.3	147.7	116.7	143.3	127.7	163.7	237.8
	May	140.4	-0.4	95.5	140.7	117.2	137.5	116.5	156.6	229.1
	June	149.4	2.8	94.4	149.8	116.4	144.9	127.1	164.9	259.3
	July	151.3	3.6	94.5	151.7	117.9	143.2	124.5	169.1	262.1
	August	136.9	4.6	87.3	137.3	116.0	129.3	122.0	153.4	243.4
	September	153.9	5.3	96.6	154.3	118.5	142.3	129.8	171.2	293.3
	October	153.6	5.9	97.1	154.0	123.3	144.1	134.0	166.0	283.4
	November	152.4	6.9	94.7	152.9	121.0	141.9	130.4	162.9	290.7
	December	154.0	4.5	99.6	154.4	120.3	139.7	128.1	164.1	286.2
1982	January	135.0	3.5	89.9	135.3	118.4	130.0	116.1	144.6	244.6
	February	143.8	2.9	96.1	144.2	115.4	135.8	118.6	164.3	267.7
	March	159.2	4.1	103.4	159.6	124.2	144.7	137.1	189.1	302.7
	April	150.1	1.8	94.2	150.5	121.3	141.1	129.5	170.9	266.7
	May	142.2	1.3	92.8	142.6	121.0	133.9	121.7	153.7	256.1
	June	151.4	1.3	94.4	151.8	118.0	140.1	132.6	166.9	276.8
	July	152.9	1.1	92.3	153.3	114.0	140.0	135.2	162.9	295.8
	August	139.0	1.5	86.1	139.3	108.1	123.4	122.2	148.7	267.6
	September	154.8	0.6	94.3	155.2	110.1	137.5	135.0	172.6	314.2
	October	148.1	-3.6	94.6	148.5	110.0	137.5	130.2	152.8	288.1
	November	151.4	-0.7	95.2	151.9	109.8	137.8	131.6	153.9	304.6
	December	152.5	-1.0	101.3	152.9	108.2	135.1	124.1	154.8	307.4

(continued)

Table 4: Japan's Industrial Production Index by Sector, 1978-1982 (continued)

(1975 = 100)

		Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles	Lumber and Wood Products	Foods
1978		106.8	192.0	121.0	131.3	104.0	120.8	107.7	107.0	106.2
1979		111.1	251.1	128.9	143.1	106.5	130.6	108.5	109.1	108.9
1980		131.3	342.4	132.3	144.2	101.2	131.0	107.1	100.7	107.5
1981		137.4	397.4	124.1	144.9	95.3	123.1	105.3	91.7	108.2
1982		129.2	386.7	120.8	148.9	90.2	126.6	103.8	88.2	109.0
1981	January	126.0	360.7	116.3	135.4	105.1	114.5	95.4	82.5	83.0
	February	134.6	403.4	121.3	137.7	99.4	116.9	104.6	88.3	95.1
	March	147.3	462.8	127.6	144.0	109.8	124.5	108.3	94.6	111.8
	April	141.4	415.4	123.9	142.3	99.2	122.3	111.2	97.4	117.2
	May	131.9	409.8	122.4	136.6	91.2	121.1	106.7	94.2	103.2
	June	143.0	430.6	125.5	146.8	85.2	125.5	109.8	95.5	106.3
	July	150.9	424.0	125.7	146.8	90.1	123.9	107.6	94.6	110.4
	August	113.2	344.3	117.2	141.3	89.6	119.8	99.1	85.4	103.7
	September	145.5	386.5	125.1	152.0	87.6	124.8	104.2	91.3	109.0
	October	142.5	373.1	127.9	151.8	90.9	128.6	106.3	94.1	111.6
	November	137.4	376.7	128.3	149.8	93.2	128.1	105.1	90.4	114.5
	December	134.9	385.1	128.0	154.9	102.8	126.7	105.0	92.2	132.1
1982	January	121.6	338.1	113.5	140.9	100.6	117.8	97.0	81.5	80.0
	February	132.5	358.2	117.7	140.7	94.8	118.3	103.6	84.6	93.5
	March	148.3	400.2	125.3	147.1	95.7	128.2	108.3	90.9	110.6
	April	133.2	379.8	121.2	149.6	91.8	127.8	109.1	90.1	111.9
	May	121.5	358.8	120.5	144.2	85.5	126.5	105.2	86.5	109.1
	June	136.7	410.9	123.9	152.8	78.5	128.1	107.3	90.0	114.8
	July	136.7	413.1	124.9	152.5	89.2	127.6	106.5	90.8	110.6
	August	107.9	367.0	113.9	150.6	88.8	121.1	97.8	83.2	102.4
	September	134.2	399.1	118.3	156.3	84.8	129.1	102.7	89.0	113.8
	October	127.9	377.2	122.0	147.9	87.3	131.9	102.7	90.5	112.2
	November	128.1	405.0	123.7	150.9	88.9	132.9	103.4	90.5	116.1
	December	121.2	432.4	125.2	153.3	96.4	130.3	102.1	90.2	133.1

Source: Ministry of International Trade and Industry

Table 5: Japan's Index of Industrial Production by End-Use Classification, 1978-1982

(1975 = 100)

		Final Demand Goods					Producer Goods
		Total	Capital Goods	Construction Materials	Consumer Goods: Durable	Consumer Goods: Nondurable	
1978		125.0	121.7	115.7	160.4	117.3	119.9
1979		135.7	133.8	123.8	184.5	121.1	129.4
1980		148.0	150.7	120.6	225.1	122.8	134.6
1981		155.9	157.2	109.8	267.7	126.7	134.3
1982		159.4	158.4	108.4	283.0	130.2	133.1
1981	January	134.2	138.7	100.4	217.1	107.6	125.0
	February	147.5	150.7	106.4	248.8	118.0	128.9
	March	164.8	176.5	112.8	268.5	129.6	136.3
	April	155.4	152.5	110.1	268.2	130.8	136.2
	May	147.0	145.6	104.5	255.2	120.7	131.3
	June	159.1	156.0	110.9	287.9	128.5	136.0
	July	161.5	163.6	112.1	281.7	128.9	137.2
	August	143.5	146.9	105.0	232.7	118.0	127.9
	September	166.8	176.6	112.7	280.6	130.3	136.0
	October	163.5	160.3	115.8	292.6	132.5	139.9
	November	162.5	158.5	113.4	294.0	132.3	139.4
	December	165.1	160.9	113.9	285.2	142.2	138.5
1982	January	140.0	142.8	101.9	239.0	110.3	128.0
	February	153.3	158.6	105.2	266.7	119.3	130.6
	March	174.1	192.1	113.5	286.5	131.8	138.4
	April	159.5	158.2	106.6	280.0	133.6	137.0
	May	150.1	142.5	103.9	269.4	128.9	131.3
	June	163.1	158.6	109.2	294.3	136.5	135.1
	July	165.1	158.7	111.3	310.4	133.8	135.9
	August	148.3	147.3	101.1	252.8	126.6	126.0
	September	170.4	177.7	110.3	298.3	133.9	133.1
	October	159.1	151.4	111.7	292.4	131.6	132.9
	November	163.7	154.7	112.7	308.1	134.7	134.4
	December	165.6	158.1	113.1	298.3	141.5	134.4

Source: Ministry of International Trade and Industry

Table 6: Japan's Index of Producers' Inventories of Finished Goods, 1978-1982

(1975 = 100)

		Total	Mining	Manufacturing	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery
1978		103.0	119.0	102.9	105.6	78.8	120.9	93.5	101.5
1979		102.8	149.6	102.7	101.5	70.4	144.2	98.7	108.9
1980		110.5	134.2	110.4	102.2	65.8	154.0	121.5	121.9
1981		114.5	115.0	114.5	106.2	77.2	132.2	133.1	131.1
1982		116.3	113.7	116.3	106.9	75.0	125.2	141.9	153.5
1981	January	116.6	127.6	116.6	107.4	76.2	130.3	139.4	132.5
	February	117.5	118.3	117.5	107.3	74.8	134.5	139.9	136.4
	March	114.5	103.4	114.6	105.5	74.8	139.0	132.3	127.6
	April	114.3	109.1	114.3	105.8	75.2	141.6	131.7	129.4
	May	114.1	115.5	114.1	105.6	75.9	143.2	130.5	125.9
	June	115.6	121.0	115.6	106.2	77.9	146.9	132.8	129.9
	July	115.2	122.8	115.2	104.1	76.7	145.6	134.7	127.5
	August	112.4	122.6	112.4	106.8	76.9	141.6	128.1	123.8
	September	112.0	118.3	112.0	106.8	79.8	123.6	127.0	127.0
	October	113.8	112.6	113.8	106.6	79.0	120.3	130.0	135.0
	November	114.9	108.7	114.9	108.2	78.9	110.7	132.6	138.0
	December	112.4	102.7	112.4	103.9	79.8	108.6	138.5	139.9
1982	January	116.7	101.3	116.7	106.9	77.1	110.7	142.1	146.9
	February	118.5	97.6	118.5	107.1	77.6	117.6	145.7	155.7
	March	115.0	99.1	115.0	105.3	76.3	124.5	139.9	150.0
	April	116.2	104.9	116.2	107.7	74.6	129.6	141.6	150.5
	May	116.6	115.7	116.6	112.5	75.8	128.8	141.5	149.5
	June	117.3	124.6	117.3	110.9	74.6	134.4	144.9	153.6
	July	118.6	126.4	118.6	109.8	72.4	141.7	145.0	155.3
	August	117.5	126.5	117.5	109.3	72.9	139.8	142.9	155.2
	September	115.1	124.5	115.1	105.3	74.0	125.6	138.7	155.5
	October	115.3	121.3	115.3	102.8	75.1	119.6	139.7	158.1
	November	115.9	115.6	115.9	104.6	73.7	115.4	141.1	156.7
	December	112.8	106.6	112.8	100.2	76.3	114.6	140.2	154.8

(continued)

Table 6: Japan's Index of Producers' Inventories of Finished Goods, 1978-1982 (continued)

(1975 = 100)

		Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles	Lumber and Wood Products	Foods
1978		120.2	161.0	89.7	100.7	118.8	101.7	90.9	89.4	89.6
1979		117.5	184.4	92.3	101.1	115.4	87.1	87.0	81.6	94.4
1980		125.1	259.0	99.4	113.5	119.0	100.7	90.6	88.6	92.9
1981		137.5	322.7	106.8	112.7	108.3	116.8	90.0	93.9	90.4
1982		143.7	375.4	104.3	112.3	101.4	99.0	93.3	82.3	91.0
1981	January	158.6	279.2	106.2	116.2	110.7	126.1	92.9	97.5	87.9
	February	150.8	293.7	106.9	120.0	104.7	127.5	93.3	101.8	85.1
	March	130.1	306.3	106.3	115.8	104.8	126.2	91.0	101.4	89.2
	April	125.6	305.2	107.2	112.9	107.3	124.8	89.4	99.4	91.3
	May	120.9	326.6	109.1	112.4	115.2	122.1	89.6	99.3	96.8
	June	126.8	344.8	109.4	112.5	112.1	122.1	91.6	98.5	94.1
	July	134.5	348.1	107.9	111.1	104.0	118.6	93.7	98.2	91.8
	August	123.1	336.4	108.0	113.8	105.4	116.3	91.2	92.7	95.3
	September	130.8	328.8	107.2	112.4	111.2	109.5	87.0	88.6	88.3
	October	143.0	329.6	106.0	108.3	112.9	104.8	85.4	86.0	90.9
	November	151.2	336.5	105.0	108.0	112.3	103.0	87.1	83.0	96.6
	December	154.8	337.6	102.8	109.4	98.2	100.9	87.5	81.0	76.9
1982	January	163.5	333.3	104.3	116.2	104.6	103.3	89.5	84.0	87.2
	February	159.5	348.0	104.9	120.6	98.4	102.8	91.4	87.0	83.9
	March	146.1	362.2	104.2	115.6	87.4	100.2	90.5	89.2	85.1
	April	144.8	363.7	105.6	115.1	94.0	99.1	89.7	88.7	91.7
	May	136.9	368.8	107.7	115.5	100.3	99.2	90.3	86.6	98.5
	June	139.3	405.1	107.3	112.7	94.5	100.3	94.0	84.6	98.3
	July	142.9	410.5	107.3	109.9	95.5	100.4	98.6	83.9	104.3
	August	135.4	397.5	107.1	112.5	104.6	99.5	97.2	80.5	94.2
	September	128.3	370.2	103.8	111.6	109.9	98.2	93.5	81.6	91.4
	October	136.3	371.1	102.1	107.6	112.5	95.7	93.1	76.9	91.0
	November	148.0	378.6	99.6	105.0	110.7	94.9	95.5	74.1	93.9
	December	142.9	395.6	98.0	105.0	104.8	93.8	96.6	76.3	77.1

Source: Ministry of International Trade and Industry

Table 7: Japan's Index of Consumption of Materials, 1978-1982

(1975 = 100)

			Domestic		Imported	
		Total	Raw Materials	Semifinished Goods	Raw Materials	Semifinished Goods
1978		115.5	114.1	119.7	101.3	149.7
1979		124.2	124.2	130.0	105.9	162.1
1980		127.3	122.8	136.4	102.0	165.9
1981		122.1	114.9	133.3	94.3	154.0
1982		118.2	113.5	129.6	90.0	158.0
1981	January	116.7	105.0	124.1	101.6	144.7
	February	119.2	107.4	128.8	97.6	148.6
	March	125.7	114.7	135.1	106.0	152.9
	April	124.8	114.1	135.4	101.1	157.2
	May	118.9	112.5	129.7	91.7	155.6
	June	122.5	117.0	136.6	83.5	159.2
	July	124.7	119.2	137.8	90.1	155.9
	August	113.8	109.4	124.1	87.5	147.3
	September	122.2	117.2	136.0	85.0	152.2
	October	126.2	124.3	139.1	92.3	159.4
	November	124.6	120.7	136.6	94.5	159.2
	December	125.3	117.3	136.2	100.7	155.5
1982	January	118.0	109.2	126.6	101.8	142.8
	February	118.8	112.0	129.8	92.8	148.4
	March	126.5	118.6	138.9	96.7	160.6
	April	122.9	117.3	135.0	93.3	164.7
	May	116.3	114.0	127.5	87.7	156.3
	June	119.1	115.4	133.2	80.3	163.2
	July	120.2	113.5	133.0	88.0	161.5
	August	110.1	102.9	120.0	86.9	148.5
	September	117.9	112.3	131.2	83.2	160.2
	October	116.3	116.2	127.2	87.8	163.0
	November	117.1	116.1	128.2	88.6	164.2
	December	115.6	114.4	125.0	92.5	162.9

Source: Ministry of International Trade and Industry

Table 8: Japan's Index of Inventories of Materials, 1978-1982

(1975 = 100)

			Domestic		Imported	
		Total	Raw Materials	Semifinished Goods	Raw Materials	Semifinished Goods
1978		109.0	166.6	99.0	107.3	131.2
1979		108.0	138.5	103.0	101.2	180.1
1980		111.0	110.8	108.0	106.5	222.9
1981		112.3	112.8	108.3	109.1	235.5
1982		111.5	105.9	110.0	108.6	218.5
1981	January	112.3	120.1	107.8	107.4	235.2
	February	111.2	115.6	107.8	105.1	237.9
	March	108.4	108.9	106.0	102.0	228.4
	April	111.4	109.2	107.3	108.7	237.0
	May	113.1	106.9	109.1	112.0	234.2
	June	113.8	110.9	108.8	113.3	238.0
	July	113.7	113.6	108.3	112.2	246.6
	August	114.0	113.8	109.0	112.2	246.6
	September	112.4	113.3	108.5	109.2	234.3
	October	112.7	117.6	108.3	109.2	235.6
	November	112.6	112.6	109.3	109.7	227.4
	December	112.1	111.3	109.5	108.3	224.1
1982	January	110.9	105.0	109.0	107.6	224.5
	February	111.2	100.3	110.3	108.0	223.7
	March	111.3	99.9	109.1	110.5	223.0
	April	113.0	98.1	111.6	111.8	228.9
	May	112.5	96.7	111.1	111.6	230.0
	June	112.2	100.3	110.5	111.0	223.9
	July	113.9	106.4	112.3	111.3	225.3
	August	111.4	110.2	109.9	107.4	216.9
	September	111.5	112.7	110.7	106.0	212.5
	October	110.7	116.0	108.7	106.7	204.7
	November	109.5	113.2	108.0	104.8	205.2
	December	109.9	112.2	108.3	106.0	203.9

Source: Ministry of International Trade and Industry

Table 9: Japan's Index of Manufacturing Operating Rates, 1978-1982

(1975 = 100)

		Total	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery
1978		110.7	90.7	131.6	102.7	112.5	125.9
1979		118.7	98.8	139.3	105.6	128.5	133.2
1980		119.5	98.8	131.2	111.1	133.3	129.0
1981		114.0	89.7	124.2	106.5	135.1	120.0
1982		110.7	87.4	122.6	102.6	127.9	119.2
1981	January	107.1	88.6	114.3	95.4	123.2	103.1
	February	113.3	83.2	117.9	113.1	136.6	121.1
	March	119.8	89.1	126.4	122.6	144.8	124.7
	April	117.5	88.9	127.7	112.9	134.0	130.5
	May	111.0	90.3	124.9	90.1	128.6	119.4
	June	117.2	88.6	130.4	109.3	137.8	130.3
	July	116.6	92.0	126.7	108.2	139.7	120.8
	August	103.7	91.2	118.1	97.9	125.6	100.1
	September	114.5	89.3	127.2	110.7	141.3	113.8
	October	116.2	94.4	127.6	107.7	138.1	125.6
	November	115.2	90.5	125.6	106.8	134.8	127.1
	December	115.4	90.8	123.8	103.5	136.7	123.3
1982	January	106.1	92.0	115.4	95.9	123.5	106.0
	February	111.4	87.7	119.1	101.2	136.3	119.7
	March	119.2	94.2	126.7	119.1	149.2	126.8
	April	115.2	91.2	126.4	104.8	138.0	127.3
	May	109.6	91.7	121.3	99.6	125.5	124.3
	June	113.8	88.0	127.0	101.3	133.9	129.1
	July	112.8	86.1	125.7	101.3	128.3	123.3
	August	100.7	84.1	113.7	96.2	115.0	102.0
	September	110.6	84.2	124.3	114.8	129.9	107.4
	October	108.2	84.6	124.6	101.3	116.6	117.6
	November	110.6	83.2	123.9	97.8	121.4	125.0
	December	109.7	82.3	123.0	97.9	117.7	121.7

(continued)

Table 9: Japan's Index of Manufacturing Operating Rates, 1978-1982 (continued)

(1975 = 100)

		Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles
1978		115.0	118.4	113.2	108.6	98.3	113.6	103.7
1979		119.1	131.2	117.5	120.0	101.3	120.1	109.0
1980		134.3	146.8	118.0	111.5	95.3	119.7	109.0
1981		131.5	139.9	108.1	103.0	87.2	111.8	107.2
1982		124.8	129.4	104.2	100.2	81.4	115.5	107.5
1981	January	121.5	131.4	100.5	102.6	97.5	107.8	105.3
	February	127.5	142.7	105.2	100.7	92.7	107.4	108.1
	March	142.1	163.1	112.0	102.9	101.6	113.9	108.3
	April	140.3	141.8	99.5	105.2	95.4	109.8	109.4
	May	126.9	148.8	98.8	101.3	84.3	109.7	106.5
	June	141.1	148.4	103.3	105.4	73.6	113.3	107.6
	July	143.2	146.7	109.3	103.7	81.6	112.2	107.3
	August	100.2	121.6	106.4	100.8	80.0	109.8	103.6
	September	139.2	140.8	114.5	101.7	74.9	112.9	106.6
	October	135.3	134.2	114.0	101.8	83.4	113.9	108.0
	November	131.7	133.1	115.2	101.8	87.0	115.6	107.9
	December	128.6	136.0	118.5	108.5	93.8	115.3	108.1
1982	January	112.1	119.7	100.0	99.8	96.6	110.6	105.1
	February	125.0	126.5	105.6	98.8	86.1	108.2	107.8
	March	143.8	139.1	111.8	97.3	89.2	116.5	108.7
	April	133.1	125.4	95.8	102.8	85.4	115.5	108.2
	May	118.3	117.3	98.7	98.1	77.7	115.8	107.2
	June	133.1	140.2	101.9	99.9	68.0	116.7	108.6
	July	134.1	136.9	109.2	101.0	78.4	116.2	108.3
	August	97.1	120.9	95.1	98.9	79.6	111.5	104.9
	September	133.3	137.3	99.0	104.3	72.9	117.9	108.0
	October	123.9	124.4	105.6	96.6	78.9	118.5	108.1
	November	126.6	129.4	108.9	99.2	79.6	120.3	108.0
	December	117.7	135.4	118.2	106.2	84.9	118.7	107.6

Source: Ministry of International Trade and Industry

Table 10: Residential Construction Starts in Japan by Funding Source, 1978-1982

(units)

			Owner-Built		Developer-Built			Private Rental		Public Rental	
		Total	Private Funds	Housing Loan Corporation	Private Funds	Housing Loan Corporation	Built for Sale by Housing Corporation	Private Funds	Housing Loan Corporation	Local Governments	Housing Corporation
1978		1,549,362	375,223	352,597	270,574	65,906	8,157	289,949	46,805	73,598	22,287
1979		1,493,013	353,899	343,541	244,199	88,394	14,160	274,633	46,512	66,006	20,862
1980		1,268,626	301,721	293,011	213,549	95,562	12,128	197,704	35,811	62,081	17,710
1981		1,151,699	259,778	290,656	157,857	85,951	21,121	186,925	33,139	62,432	16,035
1982		1,146,149	233,888	342,505	120,867	91,094	10,441	204,735	38,657	53,501	11,943
1981	January	67,717	13,501	16,886	11,980	5,815	489	10,747	2,093	2,633	1,155
	February	87,611	20,819	19,801	11,903	6,931	4,416	13,127	2,404	3,587	735
	March	97,177	23,968	26,280	13,195	8,041	1,577	12,577	3,135	4,069	1,721
	April	119,576	27,975	31,102	17,911	8,915	1,933	16,967	3,569	5,557	2,001
	May	119,272	26,819	24,939	20,252	7,855	2,515	20,659	2,961	6,940	2,098
	June	108,925	24,794	30,211	13,519	6,638	2,894	16,739	1,735	6,976	2,332
	July	97,192	22,515	30,351	9,734	6,619	2,773	14,049	1,124	6,593	499
	August	93,100	20,961	24,271	11,924	7,361	1,485	14,760	1,522	6,586	1,124
	September	92,009	19,560	22,556	12,078	6,022	797	16,358	3,332	6,461	1,557
	October	87,971	20,720	19,537	11,710	5,923	288	16,910	3,995	5,331	665
	November	86,643	19,238	18,299	11,785	8,024	292	16,912	3,485	4,773	786
	December	94,506	18,908	26,423	11,866	7,807	1,662	17,120	3,784	2,926	1,362
1982	January	66,198	12,602	18,307	8,361	6,289	420	11,682	2,553	3,235	565
	February	79,426	19,494	18,943	9,552	7,288	2,032	13,138	2,406	3,354	683
	March	97,914	23,564	26,939	9,498	11,317	506	14,036	3,592	3,917	1,402
	April	106,062	25,434	33,848	10,457	7,368	314	16,410	3,479	3,663	1,445
	May	92,995	23,585	27,097	9,730	5,387	1,823	15,789	1,704	4,110	980
	June	106,875	23,534	33,290	11,600	6,500	1,764	17,917	2,597	4,874	1,854
	July	104,736	20,335	34,672	10,524	7,875	312	17,496	2,311	7,080	780
	August	97,689	18,222	28,320	10,984	8,733	953	17,955	2,633	5,138	586
	September	98,320	17,676	28,408	10,259	8,560	389	17,767	4,133	5,897	967
	October	101,025	17,342	31,179	9,878	8,191	1,108	19,312	4,767	4,926	883
	November	98,420	16,283	31,806	9,312	6,670	223	21,533	3,880	4,100	1,261
	December	96,489	15,817	29,696	10,712	6,916	597	21,700	4,602	3,207	537

Source: Ministry of Construction

Table 11: Japan's Labor Force Survey, 1978-1982

(in thousands of persons)

		Working-Age Population*	Total Labor Force	Employed Labor Force	Totally Unemployed Labor Force	Unemployment Rate	Not in Labor Force	Ratio of Job Openings to Applications**
1978		87,260	55,320	54,080	1,240	2.2%	31,690	0.56
1979		88,240	55,960	54,790	1,170	2.1	32,000	0.71
1980		89,320	56,500	55,360	1,140	2.0	32,490	0.75
1981		90,170	57,070	55,810	1,260	2.2	32,790	0.68
1982		91,170	57,740	56,380	1,360	2.4	33,090	0.61
1981	January	89,910	55,320	54,080	1,230	2.2	34,270	0.70
	February	89,920	55,330	53,980	1,350	2.4	34,270	0.68
	March	89,980	56,290	54,880	1,420	2.5	33,400	0.68
	April	90,020	57,590	56,210	1,370	2.4	32,130	0.68
	May	90,100	57,880	56,560	1,320	2.3	31,910	0.66
	June	90,150	58,040	56,780	1,260	2.2	31,790	0.68
	July	90,150	57,810	56,600	1,210	2.1	32,020	0.69
	August	90,260	57,560	56,410	1,150	2.0	32,390	0.68
	September	90,320	57,590	56,390	1,200	2.1	32,460	0.67
	October	90,370	57,590	56,370	1,220	2.1	32,510	0.66
	November	90,440	57,280	56,090	1,190	2.1	32,860	0.66
	December	90,430	56,610	55,420	1,190	2.1	33,470	0.67
1982	January	90,620	55,760	54,450	1,310	2.3	34,451	0.66
	February	90,730	55,890	54,540	1,350	2.4	34,500	0.65
	March	90,840	46,970	55,500	1,470	2.6	33,500	0.64
	April	90,900	58,060	56,630	1,430	2.5	32,500	0.63
	May	91,030	58,710	57,370	1,340	2.3	31,990	0.59
	June	91,110	58,600	57,230	1,370	2.3	32,240	0.59
	July	91,180	58,210	56,890	1,320	2.3	32,620	0.58
	August	91,330	58,090	56,679	1,300	2.2	32,950	0.58
	September	91,440	58,230	56,890	1,340	2.3	32,910	0.59
	October	91,520	58,490	57,100	1,390	2.4	32,750	0.59
	November	91,610	58,120	56,780	1,340	2.3	33,150	0.60
	December	91,680	57,770	56,420	1,350	2.3	33,490	0.60

*People 15 years old and over.
**Excludes applications by new school graduates.

Source: Prime Minister's Office and Ministry of Labor

Table 12: Employment Indexes of Regular Workers in Japan, 1978-1982

(1980 = 100)

		Total	Mining	Construction	Manufacturing	Foods and Tobacco	Textiles	Apparel	Lumber and Wood Products	Pulp and Paper Products	Publishing	Chemicals	Petroleum and Coal Products	Nonmetallic Mineral Products
1978		97.2	104.9	100.2	99.5	92.3	107.5	100.4	106.5	103.0	99.7	103.1	103.5	102.8
1979		98.5	102.0	102.3	99.0	97.0	103.3	102.7	104.3	101.4	100.2	100.6	101.7	102.8
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.9	98.2	100.5	101.1	101.4	96.1	98.5	93.0	95.1	101.9	99.3	98.7	97.4
1982		103.1	95.7	103.1	101.8	102.5	94.1	99.3	85.8	93.2	102.6	97.4	96.6	95.1
1981	January	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	February	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	March	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	April	102.9	99.4	100.5	102.3	101.5	98.9	99.9	94.9	96.8	103.7	101.4	100.3	98.8
	May	102.9	99.1	101.0	102.1	102.3	97.7	99.4	93.8	96.3	103.2	100.9	100.0	98.7
	June	103.1	98.9	101.7	102.3	103.1	97.0	99.6	93.4	95.8	103.1	100.4	99.6	98.3
	July	102.8	98.8	102.1	102.0	102.6	96.4	99.2	92.9	95.1	102.9	100.1	99.4	98.0
	August	102.5	98.2	101.7	101.5	101.6	95.3	98.7	91.5	94.5	102.3	99.7	99.0	97.5
	September	102.3	97.9	101.8	101.4	102.4	94.8	98.4	90.9	94.2	101.9	99.2	98.9	97.0
	October	102.3	97.3	101.8	101.2	101.2	94.3	98.2	89.9	93.8	101.7	98.6	98.4	96.5
	November	102.3	97.2	102.3	101.3	102.0	94.6	98.1	90.1	93.6	101.5	98.4	98.2	96.1
	December	102.0	96.6	101.5	101.0	101.6	94.5	97.8	89.6	93.1	101.1	98.2	97.5	95.4
1982	January	101.3	95.6	99.4	100.4	100.2	93.9	97.6	88.8	92.6	100.9	97.7	97.1	94.8
	February	101.0	95.5	98.5	100.2	99.8	93.5	97.5	88.3	92.3	100.7	96.9	96.7	94.7
	March	101.0	95.1	98.9	100.3	100.0	93.9	98.3	87.9	92.6	100.9	96.5	96.6	94.9
	April	104.3	96.3	101.6	103.2	102.3	96.6	100.9	88.1	93.9	103.9	99.1	98.1	96.2
	May	104.3	96.2	103.1	103.1	102.7	95.8	100.6	87.0	93.6	103.9	98.6	97.7	96.0
	June	104.3	96.2	104.5	102.9	102.7	95.5	100.4	86.4	93.5	103.7	98.4	97.2	95.9
	July	104.1	96.3	105.0	102.7	103.2	94.9	100.5	85.6	93.5	103.5	97.9	96.8	95.5
	August	103.7	96.3	105.3	102.1	102.6	93.9	99.6	84.3	93.2	103.3	97.4	96.5	94.9
	September	103.6	95.6	105.6	101.9	103.2	93.4	99.2	83.9	93.2	102.9	97.1	96.2	94.9
	October	103.5	95.0	105.6	101.7	103.6	92.9	99.2	83.2	93.1	102.6	96.7	95.6	94.7
	November	103.5	95.5	106.4	101.7	104.6	92.8	99.0	83.4	93.3	102.6	96.3	95.3	94.8
	December	103.1	94.2	103.6	101.3	104.7	92.4	98.7	83.0	93.2	102.6	95.8	94.9	93.5

(continued)

Table 12: Employment Indexes of Regular Workers in Japan, 1978-1982 (continued)

(1980 = 100)

		Iron and Steel	Non-ferrous Metals	Fabricated Metal Products	Non-electric Machinery	Electric Machinery	Transport Equipment	Precision Instruments	Wholesale and Retail Trade	Finance and Insurance	Real Estate	Transportation and Communication	Utilities	Services
1978		103.9	99.9	98.4	100.6	93.4	101.5	82.6	96.8	99.7	91.7	99.9	94.3	90.7
1979		100.7	99.2	98.7	99.1	95.2	97.3	95.5	97.9	100.6	95.5	99.9	97.5	95.3
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		99.1	99.3	100.5	102.3	106.0	103.4	104.8	102.7	100.2	103.9	100.7	101.6	104.1
1982		98.0	98.1	102.0	104.1	110.3	104.4	106.2	104.5	100.6	103.1	100.7	102.2	106.9
1981	January	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	February	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	March	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	April	99.8	100.6	101.1	103.3	106.5	104.5	106.3	104.9	102.4	106.2	100.8	101.9	104.5
	May	100.0	100.3	101.2	103.3	106.9	104.5	106.2	104.8	102.4	106.2	100.9	102.4	104.9
	June	99.7	99.9	101.4	103.4	107.1	104.6	106.6	104.9	102.1	106.0	100.9	102.4	105.2
	July	99.5	99.6	101.0	103.2	107.2	104.6	106.2	104.4	101.2	105.4	100.7	101.9	105.3
	August	99.3	99.2	101.0	102.9	107.0	104.4	105.7	103.6	100.9	104.9	100.5	102.1	105.2
	September	99.0	99.0	101.0	102.7	107.6	104.1	105.4	103.1	100.3	104.4	100.5	101.9	104.9
	October	98.6	99.0	100.8	103.0	107.8	103.9	105.1	102.8	100.1	104.0	100.6	101.9	105.2
	November	98.4	98.8	101.0	102.7	108.1	103.9	105.0	102.9	100.1	103.7	100.6	101.7	105.4
	December	98.1	98.5	101.3	102.7	107.9	103.6	104.5	102.7	99.6	102.8	100.8	101.6	104.7
1982	January	97.7	98.1	100.5	102.2	107.6	103.2	104.1	102.0	98.9	102.0	100.7	101.1	104.4
	February	97.5	97.9	100.5	102.1	107.4	102.7	103.8	101.4	98.8	101.8	100.7	100.8	104.2
	March	97.6	98.0	100.7	102.4	107.5	102.9	103.8	101.8	98.5	101.8	100.7	100.8	103.9
	April	98.6	99.6	103.1	105.6	112.6	106.3	107.6	106.8	103.0	105.2	101.2	103.1	107.5
	May	98.7	99.2	102.9	105.6	112.3	105.8	107.4	106.6	102.6	105.2	100.9	103.1	107.9
	June	98.5	99.1	103.0	105.5	112.2	105.5	107.3	106.2	102.2	104.4	100.9	103.0	108.2
	July	98.4	98.8	103.1	105.1	111.6	105.3	107.2	105.9	101.6	104.1	100.9	102.4	107.9
	August	98.1	97.9	102.5	104.7	110.9	104.8	106.9	105.3	101.1	103.4	100.5	102.3	107.8
	September	97.9	97.6	102.3	104.3	110.8	104.6	106.6	104.7	100.5	103.1	100.5	102.4	107.8
	October	97.7	97.4	102.2	104.1	110.5	104.1	106.5	104.4	100.3	102.7	100.4	102.4	108.0
	November	97.6	97.0	102.0	103.9	110.0	104.1	106.4	104.6	100.2	101.9	100.6	102.4	107.9
	December	97.4	96.7	101.6	103.6	109.6	103.6	106.4	104.8	99.6	101.7	100.8	102.3	107.4

Source: Ministry of Labor

Table 13: Nominal Wage Indexes of Regular Workers in Japan, 1978-1982

(1980 = 100)

		Total	Mining	Construction	Manufacturing	Foods and Tobacco	Textiles	Apparel	Lumber and Wood Products	Pulp and Paper Products	Publishing	Chemicals	Petroleum and Coal Products	Nonmetallic Mineral Products
1978		88.8	89.5	86.5	86.7	91.4	85.7	89.2	85.7	87.3	86.0	83.8	83.8	86.1
1979		94.1	94.2	93.1	93.0	93.9	94.1	94.4	94.9	94.2	91.1	92.8	92.8	92.4
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		105.3	106.1	107.2	105.6	102.8	105.4	105.6	101.5	104.0	106.2	104.7	106.3	106.7
1982		110.0	109.6	111.3	110.7	106.4	109.5	107.7	108.0	111.5	110.9	112.5	110.4	112.4
1981	January	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	February	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	March	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	April	78.8	79.6	83.9	79.0	79.1	82.2	85.4	84.0	78.3	79.0	74.0	79.2	81.3
	May	79.9	80.6	85.3	81.8	82.5	83.2	87.3	85.0	80.9	80.5	77.3	76.1	83.7
	June	143.8	117.3	139.6	123.3	121.7	124.3	100.0	100.3	135.3	142.0	135.7	142.8	119.2
	July	141.9	129.0	140.1	172.6	146.2	147.8	151.5	136.1	150.3	161.2	178.5	179.5	165.6
	August	90.3	138.2	96.2	92.8	97.8	107.5	115.8	114.0	94.0	86.7	81.8	90.9	99.6
	September	79.8	85.2	86.8	80.8	79.7	83.7	86.7	86.4	81.8	79.8	76.4	75.4	84.0
	October	81.1	84.1	87.8	81.3	79.2	83.9	86.6	85.9	83.0	79.9	78.0	75.1	84.6
	November	83.2	83.7	91.9	85.2	83.5	86.9	88.0	89.8	84.9	85.5	79.9	81.2	93.3
	December	242.5	225.7	226.1	236.6	224.8	220.8	210.8	191.8	224.8	245.3	252.2	250.8	228.6
1982	January	83.3	89.1	84.7	83.6	85.0	83.9	88.1	88.4	85.6	82.8	81.0	78.7	85.6
	February	80.1	84.0	85.9	81.0	80.1	85.3	86.2	86.8	82.6	79.7	77.2	76.2	84.8
	March	89.4	85.0	89.6	81.8	84.8	83.6	85.7	86.6	82.4	81.8	76.8	75.6	85.0
	April	84.3	86.4	87.7	83.0	82.2	84.6	90.5	87.5	83.5	84.7	78.5	76.9	85.2
	May	83.5	84.7	90.1	86.1	86.6	85.1	89.5	88.6	91.0	83.9	84.8	78.3	90.5
	June	148.8	123.1	139.9	131.4	131.5	148.2	98.6	105.5	141.0	154.8	138.5	130.3	122.0
	July	148.5	116.1	144.8	174.3	144.0	138.2	161.0	146.4	161.9	159.0	196.3	204.0	177.0
	August	97.5	151.8	109.2	101.4	101.6	111.3	115.2	121.3	103.1	91.7	95.0	95.3	110.9
	September	83.8	91.5	89.4	85.0	83.8	87.9	88.1	93.3	87.2	86.0	81.5	80.4	88.4
	October	85.0	87.7	90.8	85.1	82.8	87.2	88.0	92.1	88.1	84.3	83.0	79.6	88.9
	November	87.7	92.6	91.1	88.5	83.8	91.1	93.0	94.4	90.3	95.3	81.5	90.2	92.1
	December	248.0	223.7	232.3	246.9	231.1	227.1	208.9	204.7	241.8	246.6	275.5	259.1	238.5

(continued)

Table 13: Nominal Wage Indexes of Regular Workers in Japan, 1978-1982 (continued)

(1980 = 100)

		Iron and Steel	Non-ferrous Metals	Fabricated Metal Products	Non-electric Machinery	Electric Machinery	Transport Equipment	Precision Instruments	Wholesale and Retail Trade	Finance and Insurance	Real Estate	Transportation and Communication	Utilities	Services
1978		84.7	87.6	88.8	83.0	88.7	85.7	87.2	90.0	87.1	89.9	91.4	88.2	91.6
1979		91.7	94.3	95.0	91.4	93.8	92.0	94.3	95.4	92.7	95.5	94.8	94.3	95.3
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		106.4	104.5	107.1	106.9	105.0	106.1	105.2	103.0	107.3	101.1	106.5	108.3	104.2
1982		111.6	109.0	110.6	111.8	111.2	110.5	108.9	106.4	112.9	107.9	111.6	113.1	108.5
1981	January	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	February	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	March	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	April	77.7	77.6	82.9	79.1	77.5	78.3	75.6	79.7	74.1	77.1	79.2	82.4	77.9
	May	80.2	80.8	84.1	83.6	80.9	82.5	78.7	80.6	74.8	75.9	79.0	79.9	76.6
	June	89.2	143.5	103.5	113.7	157.9	99.0	115.6	125.1	198.4	146.6	145.6	214.9	166.8
	July	223.4	151.0	192.2	185.6	145.6	205.5	183.1	152.3	125.3	137.3	127.4	91.5	104.4
	August	94.3	90.6	95.8	92.2	83.9	92.2	95.6	90.8	80.0	80.3	93.4	85.0	85.3
	September	79.4	80.1	83.9	82.5	79.3	80.6	77.3	79.9	74.7	75.4	80.5	79.6	77.0
	October	79.9	80.5	83.8	82.2	79.7	82.0	77.2	80.6	75.4	76.1	84.8	81.3	78.2
	November	82.9	82.9	86.8	87.5	82.1	88.7	80.0	83.0	78.4	75.9	84.2	83.9	78.6
	December	243.8	232.6	232.5	241.8	243.5	234.0	254.7	229.7	274.4	235.4	246.9	253.6	251.6
1982	January	85.5	81.7	87.9	82.7	80.3	85.3	79.5	85.0	81.5	79.4	86.1	86.5	80.3
	February	79.7	81.2	83.9	81.4	79.7	80.0	77.2	77.4	72.7	76.9	82.1	82.4	79.0
	March	80.1	80.9	83.0	83.7	80.2	80.6	78.0	80.3	92.1	90.6	89.5	96.8	105.3
	April	82.8	81.1	85.1	84.9	81.2	81.5	80.9	82.3	78.1	80.1	96.1	84.2	81.7
	May	85.0	84.9	86.4	86.5	85.9	85.3	82.5	82.6	78.2	81.0	83.8	84.5	79.5
	June	99.0	154.3	112.0	125.8	165.2	105.4	131.5	122.6	203.2	160.8	154.7	231.7	166.7
	July	221.5	146.4	180.2	180.0	147.7	208.6	176.2	161.3	131.7	136.8	137.0	90.1	119.4
	August	103.3	102.4	104.1	108.2	98.1	95.0	96.5	96.5	91.8	90.9	98.9	88.8	89.4
	September	83.3	83.7	87.1	85.6	84.6	83.3	81.7	82.0	78.4	80.5	85.2	85.3	81.5
	October	82.9	84.2	87.8	84.8	84.9	83.8	82.0	83.5	80.0	82.3	90.5	86.7	81.9
	November	89.7	86.6	91.6	89.6	86.5	88.8	83.0	89.6	82.3	82.8	87.9	83.6	85.7
	December	246.3	240.3	238.2	248.3	260.1	247.8	257.4	233.8	284.5	252.3	246.8	256.0	251.0

Source: Ministry of Labor

Table 14: Indexes of Labor Productivity in Japan, 1978-1982

(1975 = 100)

		Total	Mining	Manufacturing	Foods	Textiles	Apparel	Lumber and Wood Products	Pulp and Paper Products	Nonmetallic Mineral Products
1978		127.3	123.0	127.4	100.6	124.2	116.9	109.1	129.8	131.2
1979		142.7	125.1	142.8	100.7	129.0	116.4	119.3	143.3	144.7
1980		155.7	124.9	156.0	101.3	131.5	115.5	121.3	151.2	150.2
1981		161.2	123.9	161.5	103.9	133.6	116.9	112.4	150.8	147.3
1982		163.7	127.4	164.0	102.2	136.7	117.6	113.4	157.0	150.5
1981	January	159.6	128.1	159.8	120.2	134.6	118.2	118.7	145.3	146.3
	February	157.7	127.2	147.9	106.4	130.6	114.5	111.8	140.2	144.1
	March	169.5	130.8	169.8	107.4	136.9	120.8	124.1	155.6	152.3
	April	155.8	123.0	156.0	101.6	135.3	122.8	114.7	146.6	143.1
	May	158.1	125.4	158.3	101.9	136.8	124.1	120.5	148.6	145.0
	June	157.1	119.2	157.4	94.0	132.9	118.9	110.9	148.0	144.4
	July	158.3	117.7	158.6	98.8	131.1	113.4	105.7	149.5	144.8
	August	158.0	118.0	158.3	106.4	132.7	113.9	105.4	150.5	143.8
	September	167.3	122.7	167.6	99.6	131.9	113.3	106.9	154.6	149.3
	October	163.5	123.0	163.8	104.5	134.0	114.7	113.5	158.4	150.8
	November	163.6	123.8	163.9	102.8	133.4	113.4	107.5	156.3	151.5
	December	166.2	127.7	166.5	103.0	133.4	114.2	108.7	155.7	152.7
1982	January	164.3	125.2	164.6	110.8	140.6	117.8	116.4	153.8	150.5
	February	163.6	129.1	163.8	104.1	135.2	115.4	105.1	147.3	144.8
	March	175.3	135.0	175.6	105.2	141.6	124.1	113.8	163.5	155.1
	April	158.0	124.3	158.2	95.0	138.1	123.1	111.4	154.9	146.6
	May	160.5	126.8	160.7	107.7	142.0	129.6	115.8	158.9	150.6
	June	160.7	123.4	161.0	102.1	135.7	118.2	109.8	153.2	149.1
	July	161.4	119.1	161.7	96.9	134.1	115.2	113.2	155.8	149.2
	August	160.9	120.5	161.2	103.9	134.5	113.7	112.9	153.5	146.0
	September	169.4	128.3	169.7	103.1	135.0	114.1	115.0	158.4	148.8
	October	161.9	130.2	162.1	100.3	135.3	114.1	118.6	162.6	152.5
	November	163.0	129.8	163.2	99.0	133.9	112.5	114.0	161.1	153.7
	December	165.5	136.7	165.7	98.2	134.3	113.2	114.6	160.5	158.7

(continued)

Table 14: Indexes of Labor Productivity in Japan, 1978-1982 (continued)

(1975 = 100)

		Chemicals	Petroleum and Coal Products	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery	Transport Equipment	Precision Instruments
1978		136.9	105.2	121.4	148.3	141.0	139.1	161.4	95.6	192.2
1979		153.2	110.5	140.1	161.4	140.9	161.4	194.4	110.7	247.8
1980		157.6	105.6	145.9	162.4	138.4	181.3	229.0	137.9	336.1
1981		162.7	102.2	142.1	160.4	133.1	183.6	267.3	141.3	392.6
1982		171.2	97.0	142.0	162.9	135.0	183.0	288.3	131.8	384.1
1981	January	157.1	116.3	142.1	160.3	130.1	180.0	237.7	147.5	392.3
	February	157.4	107.8	136.1	153.4	129.0	179.2	249.6	144.4	405.8
	March	165.3	121.6	144.9	166.5	136.7	201.7	276.6	149.9	461.0
	April	152.4	103.9	138.6	158.7	132.5	177.7	240.8	140.0	393.4
	May	160.0	99.5	143.5	153.2	129.8	180.7	248.5	138.7	414.9
	June	157.1	87.7	137.8	161.2	129.8	177.5	257.1	143.6	400.2
	July	156.6	93.0	138.3	159.9	127.1	182.2	260.6	146.1	402.2
	August	163.1	93.1	143.4	160.9	134.8	181.9	270.3	123.9	372.1
	September	172.1	94.4	143.6	163.0	139.6	192.9	301.9	145.9	377.9
	October	170.0	96.9	146.4	163.8	139.3	180.8	279.3	139.7	351.2
	November	168.8	99.4	144.8	162.4	133.2	182.9	291.9	136.1	365.6
	December	173.2	112.6	145.9	160.9	135.6	185.2	293.8	140.2	374.1
1982	January	174.6	99.1	150.9	165.0	135.4	179.8	279.2	135.7	368.7
	February	165.7	105.1	145.7	162.2	128.4	188.5	281.2	142.6	371.4
	March	169.9	107.4	153.9	170.8	145.9	212.5	310.5	148.6	403.4
	April	163.3	97.9	144.6	159.3	132.7	185.0	258.2	128.6	357.0
	May	169.8	86.5	150.3	163.7	131.9	179.8	267.9	125.6	361.0
	June	163.4	84.3	142.2	159.6	134.3	180.2	269.0	136.2	387.6
	July	168.1	94.1	136.7	161.3	136.0	177.1	289.5	131.3	394.6
	August	177.8	92.4	137.4	158.8	133.4	177.9	290.9	116.8	388.8
	September	180.3	94.0	135.6	163.7	140.9	193.3	313.9	137.8	392.4
	October	170.8	97.3	135.5	164.7	135.9	173.4	288.4	127.6	365.5
	November	170.5	98.4	135.1	162.7	136.5	172.7	300.4	127.0	388.3
	December	174.6	107.5	135.6	163.2	128.5	175.9	310.5	123.8	430.2

Source: Japan Productivity Center

Table 15: Japan's Wholesale Price Index by Industry, 1978-1982

(1980 = 100)

		Total									
		Index	Change Over Year-Earlier Period	Processed Foods	Textile Products	Lumber and Wood Products	Pulp, Paper and Related Products	Chemicals	Petroleum and Products	Ceramics	Iron and Steel
1978		79.1	-2.6%	90.2	90.4	72.1	73.7	75.0	51.9	80.0	84.7
1979		84.9	7.3	91.0	94.6	89.0	76.8	83.0	60.7	86.2	91.5
1980		100.0	17.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.4	1.4	104.4	100.9	90.1	97.0	97.4	109.5	103.6	101.2
1982		103.2	1.8	104.9	102.5	91.3	95.6	96.9	117.7	104.9	102.3
1982	January	101.9	1.9	105.0	102.7	92.7	96.4	97.4	114.0	103.9	101.6
	February	102.6	2.7	105.2	103.0	92.0	96.6	97.7	114.2	104.3	102.6
	March	102.9	2.9	105.4	102.5	91.6	96.9	97.8	114.3	104.6	102.9
	April	103.1	2.6	105.2	102.5	91.2	97.1	97.5	115.7	104.7	103.1
	May	102.4	1.1	104.8	102.3	90.2	96.7	96.7	115.8	104.7	102.2
	June	102.9	1.4	104.6	102.6	89.4	96.3	96.6	116.2	105.1	102.7
	July	103.5	1.4	104.6	102.6	90.4	95.4	96.2	116.8	105.3	103.0
	August	103.8	1.2	104.7	102.6	91.1	94.9	96.2	119.7	105.3	102.9
	September	104.2	1.7	104.8	102.7	91.6	94.7	96.3	120.6	105.3	102.7
	October	104.4	2.0	104.8	102.7	91.4	94.4	96.7	121.7	105.6	102.5
	November	104.1	2.0	104.9	102.2	91.7	94.3	96.8	121.7	105.4	101.8
	December	102.7	0.9	104.5	101.1	91.8	93.9	96.3	121.1	104.7	100.1

(continued)

Table 15: Japan's Wholesale Price Index by Industry, 1978-1982 (continued)

(1980 = 100)

		Nonferrous Metals	Metal Products	Nonelectric Machinery and Precision Instruments	Electric Machinery	Transport Equipment	Miscellaneous Products	Agricultural, Forestry and Fishery Products	Mining Products	Electric Power, Gas and Water
1978		61.9	89.3	94.2	96.9	97.0	83.5	87.6	50.6	68.1
1979		77.5	91.0	96.0	97.3	97.6	87.8	94.6	63.9	68.3
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		86.8	101.5	101.1	99.8	102.6	103.5	98.3	108.8	110.3
1982		83.7	100.0	102.0	100.3	105.5	104.0	98.7	119.7	111.9
1982	January	83.7	100.0	101.3	99.7	103.9	102.2	97.1	111.6	110.1
	February	84.5	100.0	101.8	100.3	104.7	102.8	97.7	115.0	110.3
	March	83.7	100.0	102.1	100.6	104.9	103.0	98.4	116.8	110.3
	April	83.6	100.2	102.3	100.5	105.1	103.4	99.4	118.1	110.3
	May	82.5	100.1	102.0	99.5	104.2	103.2	98.6	115.7	110.3
	June	80.7	99.9	102.2	100.1	106.1	104.3	99.3	118.8	110.3
	July	82.1	99.8	102.1	100.7	106.1	104.9	99.0	122.0	116.5
	August	83.2	99.8	102.2	100.9	105.9	104.9	98.5	123.2	116.5
	September	84.5	99.8	102.3	101.0	106.4	105.2	99.8	124.4	116.5
	October	85.8	100.1	102.4	101.0	107.1	105.0	99.5	127.1	110.3
	November	86.0	100.1	102.3	100.1	106.5	105.0	99.0	125.8	110.4
	December	84.1	99.9	101.5	98.9	104.6	104.6	97.6	118.4	110.4

Source: Bank of Japan

Table 16: Japan's Wholesale Price Index for Domestic Products, 1978-1982

(1980 = 100)

				Intermediate Goods						Consumer Goods		
		Total	Raw Materials	Total	Semifinished Goods	Construction Materials	Fuels and Energy	Other Materials	Capital Goods	Total	Durables	Nondurables
1978		78.8	59.2	74.9	78.4	80.0	54.9	80.2	94.5	91.2	98.6	89.4
1979		84.3	72.5	81.2	84.4	89.5	60.0	81.9	95.6	92.8	98.3	91.5
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.4	103.2	100.3	98.2	96.3	111.4	101.5	102.3	102.6	99.7	103.5
1982		103.0	110.5	100.7	97.3	96.1	117.6	101.2	103.8	103.7	99.2	105.1
1982	January	101.9	104.4	100.5	97.7	96.3	114.3	101.6	103.2	103.1	99.4	104.1
	February	102.4	107.3	100.6	97.9	96.2	114.4	101.6	103.4	103.2	99.4	104.3
	March	102.5	108.8	100.5	97.8	96.0	114.6	101.6	103.6	103.3	99.4	104.5
	April	102.8	109.9	100.6	97.6	96.1	115.5	101.6	103.6	103.5	99.3	104.8
	May	102.3	107.8	100.3	97.1	95.8	115.6	101.5	103.6	103.5	99.3	104.8
	June	102.5	110.0	100.1	96.8	95.5	115.9	101.4	103.6	103.6	99.3	104.9
	July	103.1	112.0	100.6	96.8	95.7	118.9	101.1	103.8	103.7	99.4	105.0
	August	103.5	112.6	101.1	96.9	96.0	121.3	101.0	103.9	104.0	99.3	105.5
	September	103.9	113.5	101.4	97.1	96.2	122.1	100.8	104.1	104.3	99.1	105.9
	October	104.0	115.5	101.1	97.4	96.3	119.6	100.8	104.2	104.3	99.1	105.9
	November	103.9	114.6	101.2	97.4	96.5	119.6	100.8	104.4	104.2	99.0	105.8
	December	102.9	109.0	100.8	97.0	96.5	119.2	100.8	104.1	104.1	98.6	105.7

Source: Bank of Japan

Table 17: Japan's Wholesale Price Index for Exported Products 1978-1982

(1980 = 100)

		Total	Semifinished Goods	Construction Materials	Capital Goods	Consumer Goods		
						Total	Durables	Nondurables
1978		84.0	76.5	77.2	88.5	90.6	91.8	85.4
1979		92.5	89.3	91.1	93.8	95.2	96.7	88.4
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.2	97.9	116.0	102.0	100.8	100.6	102.3
1982		105.1	101.8	119.3	107.7	103.6	102.8	108.7
1982	January	102.5	98.3	125.4	103.6	101.3	101.0	103.6
	February	104.5	100.5	128.5	104.9	103.3	102.8	106.3
	March	105.4	101.5	127.6	106.1	104.2	103.8	106.7
	April	105.9	102.2	127.1	106.9	104.4	103.9	107.8
	May	103.5	100.0	122.4	105.5	101.4	100.7	105.6
	June	106.2	102.5	124.0	108.2	104.8	104.1	109.1
	July	106.8	103.5	126.0	109.0	104.4	103.5	110.0
	August	106.2	103.5	117.3	109.1	104.3	103.3	110.9
	September	106.5	103.5	113.5	110.0	105.4	104.4	111.7
	October	107.2	104.7	110.2	111.0	106.4	105.2	114.1
	November	105.4	102.8	107.2	110.6	103.8	102.5	111.9
	December	101.2	98.2	102.0	107.4	99.3	98.3	106.2

Source: Bank of Japan

Table 18: Japan's Consumer Price Index, 1978-1982

(1980 = 100)

		Total										
		Index	Change Over Year-Earlier Period	Food	Housing	Utilities	Clothing	Medical Care	Transport-tation	Education	Recreation	Miscella-neous
1978		89.4	3.8%	92.3	87.3	71.6	90.4	96.2	88.7	83.9	90.3	86.7
1979		92.6	3.6	94.3	92.4	74.9	94.8	98.3	94.0	91.5	93.2	89.2
1980		100.0	8.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		104.9	4.9	105.3	104.0	107.7	104.0	102.8	103.4	107.5	105.0	104.5
1982		107.7	2.7	107.2	107.1	111.5	107.0	105.8	108.7	114.1	107.0	106.4
1981	January	103.1	7.3	104.1	102.9	105.7	101.6	101.1	99.4	102.1	104.1	103.4
	February	103.0	6.4	104.6	103.2	105.8	98.1	101.2	99.8	102.1	103.8	103.5
	March	103.5	6.3	105.2	103.5	105.7	99.3	100.8	99.9	102.2	104.4	103.7
	April	104.3	5.1	105.6	104.0	106.4	100.6	101.4	100.3	109.0	105.2	103.9
	May	105.2	5.1	105.4	104.5	107.2	105.7	101.6	104.1	109.3	105.1	104.2
	June	105.3	4.7	105.3	103.6	107.4	106.8	103.4	104.3	109.3	104.7	104.4
	July	105.0	4.3	105.0	103.9	107.6	104.3	103.6	104.4	109.3	104.8	104.6
	August	104.4	4.1	104.7	104.1	108.3	95.8	103.8	104.9	109.3	106.5	104.7
	September	106.1	3.9	106.2	104.4	108.8	107.1	104.0	105.6	109.3	105.1	105.1
	October	106.5	4.1	106.3	104.5	109.3	110.2	104.1	105.9	109.3	104.9	105.3
	November	106.2	3.6	105.5	104.8	110.2	109.2	104.3	106.2	109.3	105.1	105.4
	December	106.5	4.3	105.8	105.0	110.2	109.3	104.4	106.4	109.3	106.1	105.5
1982	January	106.5	3.3	106.7	105.3	110.2	104.6	104.7	106.8	109.3	105.6	105.7
	February	106.2	3.1	106.9	105.6	110.3	100.5	105.1	107.1	109.3	105.7	105.8
	March	106.4	2.8	107.1	105.8	110.4	101.7	105.1	107.1	109.3	105.7	105.9
	April	107.2	2.8	107.6	106.5	110.9	102.7	105.8	107.4	109.3	106.7	106.2
	May	107.6	2.3	106.6	106.9	111.1	109.6	105.8	109.5	115.4	106.8	106.3
	June	107.6	2.2	106.1	107.3	111.3	110.7	105.9	108.6	115.6	106.9	106.3
	July	106.8	1.7	104.8	107.5	111.3	106.7	105.9	108.8	115.7	106.6	106.4
	August	107.6	3.1	108.0	107.6	112.1	98.8	105.9	109.8	115.7	108.3	106.4
	September	109.5	3.2	109.8	107.8	112.6	109.8	106.1	109.9	115.7	108.4	106.7
	October	109.8	3.1	109.7	107.9	112.7	113.3	106.3	110.1	115.7	108.1	106.7
	November	108.6	2.3	106.7	108.1	112.6	113.4	106.5	110 1	115.7	107.5	106.8
	December	108.4	1.8	106.2	108.6	112.6	112.5	106.6	110.2	115.7	108.0	107.0

Source: Prime Minister's Office

Table 19: Japan's Export and Import Yen-Based Price Indexes, 1978-1982

(1980 = 100)

		Exports		Imports	
		Index	Change Over Year-Earlier Period	Index	Change Over Year-Earlier Period
1978		83.1	-6.6%	53.7	-17.5%
1979		92.1	10.8	69.1	28.7
1980		100.0	8.6	100.0	44.7
1981		101.2	1.2	101.6	1.6
1982		105.1	3.9	109.6	7.9
1981	January	96.1	-4.8	94.8	-2.8
	February	96.8	-5.6	96.4	-7.3
	March	97.7	-6.0	98.0	-7.0
	April	99.4	-5.4	99.9	-6.4
	May	101.0	0.2	102.3	1.9
	June	102.2	4.2	103.5	6.4
	July	104.0	5.3	105.2	6.7
	August	104.8	5.1	105.8	4.6
	September	104.0	6.2	104.5	5.8
	October	104.2	7.3	104.8	8.9
	November	102.5	4.7	103.1	6.0
	December	101.3	4.1	100.9	4.6
1982	January	102.5	6.7	102.2	7.8
	February	104.5	8.0	105.5	9.4
	March	105.4	7.9	107.1	9.3
	April	105.9	6.5	108.4	8.5
	May	103.5	2.5	106.0	3.6
	June	106.2	3.9	108.9	5.2
	July	106.8	2.7	111.3	5.8
	August	106.2	1.3	112.4	6.2
	September	106.5	2.4	113.7	8.8
	October	107.2	2.9	116.0	10.7
	November	105.4	2.8	114.9	11.4
	December	101.2	-0.1	108.6	7.6

Source: Bank of Japan

Table 20: Japan's Global Balance of Payments, 1978-1982

(in millions of dollars, IMF value basis, seasonally unadjusted)

	Exports	Imports	Trade Balance	Services	Transfers	Current Account Balance	Long-Term Capital	Basic Balance	Short-Term Capital	Errors and Omissions	Overall Balance	International Reserves*
1978	$ 95,634	$ 71,038	$24,596	$-7,387	$ -675	$16,534	$-12,389	$ 4,145	$1,538	$ 267	$ 5,950	$33,019
1979	101,232	99,387	1,845	-9,472	-1,127	-8,754	-12,976	-21,730	2,735	2,333	-16,662	20,327
1980	126,736	124,611	2,125	-11,343	-1,528	-10,746	2,324	-8,422	3,141	-3,115	-8,396	25,232
1981	149,522	129,555	19,967	-13,573	-1,624	4,770	-9,672	-4,902	2,265	493	-2,144	28,403
1982	137,663	119,584	18,079	-9,848	-1,381	6,850	-14,969	-8,119	-1,579	4,727	-4,971	23,262
1981 January	9,306	10,718	-1,412	-1,153	-159	-2,724	313	-2,411	1,521	842	-48	26,502
February	11,903	10,521	1,382	-1,440	-71	-129	59	-70	773	-47	656	26,685
March	13,715	11,637	2,078	-987	-314	777	-915	-138	1,745	209	1,816	27,020
April	12,683	11,250	1,433	-901	-83	449	135	584	-3,044	17	-2,443	27,344
May	12,178	11,369	809	-1,104	-87	-382	-939	-1,321	397	-248	-1,172	27,735
June	12,590	9,986	2,604	-1,123	-93	1,388	-1,592	-204	-603	-147	-954	27,837
July	13,360	10,985	2,375	-1,248	-187	940	-1,497	-557	-457	233	-781	27,514
August	11,644	9,906	1,738	-1,186	-75	477	-825	-348	582	367	601	27,660
September	13,021	9,746	3,275	-1,079	-82	2,114	-1,348	766	803	-15	1,554	27,980
October	13,182	10,230	2,952	-995	-169	1,788	-1,209	579	-1,867	-163	-1,451	28,488
November	11,574	11,015	559	-1,464	-156	-1,061	-233	-1,294	2,462	-792	376	28,779
December	14,366	12,192	2,174	-893	-148	1,133	-1,621	-488	-47	237	-298	28,403
1982 January	10,246	11,105	-859	-898	-135	-1,892	-1,605	-3,497	-497	1,326	-2,668	28,245
February	11,543	10,267	1,276	-1,186	-87	3	-1,493	-1,490	23	265	-1,202	28,122
March	13,205	11,183	2,022	-799	-246	977	-2,707	-1,730	1,339	970	579	27,231
April	12,138	10,707	1,431	-754	-115	562	-1,976	-1,414	-2,250	481	-3,183	26,807
May	11,408	10,045	1,363	-1,154	-62	147	-571	-424	495	1,200	1,271	26,543
June	11,670	9,152	2,518	-587	-58	1,873	-2,022	-149	-1,096	-223	-1,468	25,487
July	11,922	9,552	2,370	-762	-112	1,496	-1,956	-460	369	-408	-499	25,669
August	10,379	9,429	950	-924	-66	-40	-2,281	-2,321	1,096	828	-397	24,416
September	11,663	9,223	2,440	-852	-120	1,468	-415	1,053	-1,539	1,309	823	24,009
October	11,062	9,123	1,939	-396	-110	1,433	-292	1,141	-938	-276	-73	22,840
November	9,982	9,865	117	-982	-156	-1,021	646	-375	2,088	-103	1,610	22,976
December	12,445	9,933	2,512	-554	-114	1,844	-297	1,547	-669	-642	236	23,262

*Gold, foreign exchange, special drawing rights (SDRs) and International Monetary Fund (IMF) reserve position. Annual figures are for December.

Source: Bank of Japan and Ministry of Finance

Table 21: Japan's Exports and Imports in Dollar Terms, 1978-1982

(in millions of dollars, customs clearance basis, seasonally unadjusted)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1978		$ 97,543	21.2%	$ 79,343	12.1%	$ 8,200
1979		103,032	5.6	110,672	39.5	-17,641
1980		129,807	26.0	140,528	27.0	-10,721
1981		152,030	17.1	143,290	2.0	8,741
1982		138,831	-8.7	131,931	-7.9	6,900
1981	January	9,459	35.6	11,945	14.4	-2,487
	February	12,107	26.4	11,811	7.5	296
	March	13,971	30.2	12,930	9.4	1,040
	April	12,837	27.9	12,408	2.9	429
	May	12,636	20.5	12,650	2.5	-14
	June	12,754	15.9	11,295	-6.1	1,459
	July	13,606	18.9	12,096	-2.7	1,509
	August	11,794	13.4	11,044	-1.4	750
	September	13,151	12.7	10,842	0.6	2,309
	October	13,506	13.5	11,380	-6.8	2,126
	November	11,699	5.2	11,845	4.3	-146
	December	14,512	0.4	13,043	1.2	1,469
1982	January	10,303	8.9	12,160	1.8	-1,857
	February	11,670	-3.6	11,346	-3.9	324
	March	13,471	-3.6	12,625	-2.4	846
	April	12,317	-4.0	11,832	-4.6	485
	May	11,590	-8.3	11,140	-11.9	450
	June	11,729	-8.0	10,071	-10.8	1,659
	July	11,953	-12.1	10,677	-10.7	1,276
	August	10,422	-11.6	10,457	-5.3	-35
	September	11,630	-11.6	10,044	-7.4	1,586
	October	11,104	-17.8	10,127	-11.0	977
	November	10,059	-14.0	10,473	-11.6	-413
	December	12,583	-13.3	10,980	-15.8	1,603

Source: Ministry of Finance

Table 22: Japan's Exports and Imports in Yen Terms, 1978-1982

(in billions of yen, customs clearance basis, seasonally unadjusted)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1978		¥20,556	-5.0%	¥16,728	-12.6%	¥3,828
1979		22,532	9.6	24,245	44.9	-1,714
1980		29,383	30.4	31,995	32.0	-2,613
1981		33,469	13.9	31,464	-1.7	2,005
1982		34,433	2.9	32,656	3.8	1,776
1981	January	1,925	16.2	2,437	-1.8	-512
	February	2,464	6.9	2,403	-9.0	61
	March	2,903	9.3	2,687	-8.1	216
	April	2,723	7.4	2,630	-13.6	94
	May	2,748	10.2	2,747	-6.8	1
	June	2,857	17.3	2,529	-5.1	328
	July	3,083	23.6	2,740	1.2	343
	August	2,784	19.2	2,610	3.7	174
	September	3,028	18.6	2,497	5.8	532
	October	3,093	23.7	2,608	1.6	486
	November	2,692	14.6	2,731	15.4	-39
	December	3,166	3.1	2,845	3.7	321
1982	January	2,284	18.6	2,692	10.5	-408
	February	2,704	9.8	2,623	9.1	82
	March	3,196	10.1	2,993	11.4	203
	April	3,032	11.3	2,911	10.7	121
	May	2,750	0.1	2,643	-3.8	107
	June	2,862	0.2	2,454	-3.0	409
	July	3,060	-0.7	2,734	-0.2	326
	August	2,685	-3.6	2,689	3.0	-5
	September	3,010	-0.6	2,598	4.0	412
	October	2,974	-3.9	2,715	4.1	259
	November	2,741	1.8	2,857	4.6	-116
	December	3,135	-1.0	2,749	-3.4	386

Source: Ministry of Finance

Table 23: Japan's Export and Import Quantum (Volume) Indexes, 1978-1982

(1975 = 100)

		Exports		Imports	
		Index	Change Over Year-Earlier Period	Index	Change Over Year-Earlier Period
1978		131.2	-1.2%	118.3	6.4%
1979		130.5	-0.5	131.4	11.1
1980		154.0	18.0	123.6	-5.9
1981		170.2	10.5	120.9	-2.2
1982		165.2	-2.9	120.9	0.0
1981	January	119.4	14.3	120.0	0.7
	February	158.6	11.8	116.0	-3.1
	March	184.3	12.6	125.6	0.3
	April	171.2	13.3	122.4	-5.4
	May	167.8	10.0	123.8	-5.1
	June	174.2	11.7	114.3	-9.6
	July	187.7	15.0	122.5	-5.0
	August	166.0	13.8	114.5	-2.1
	September	183.7	14.0	112.4	-0.2
	October	177.3	10.3	119.3	-5.6
	November	158.3	3.5	124.5	6.6
	December	193.9	-0.2	135.9	3.6
1982	January	134.5	12.7	127.3	6.1
	February	159.1	0.3	119.7	3.2
	March	185.9	0.9	134.6	7.2
	April	170.3	-0.5	129.6	5.9
	May	155.9	-7.1	122.4	-1.1
	June	167.8	-3.7	114.3	0.0
	July	176.4	-6.0	119.4	-2.5
	August	149.5	-9.9	116.1	1.4
	September	169.1	-8.0	112.2	-0.2
	October	176.6	-0.4	115.3	-3.4
	November	153.9	-2.8	116.7	-6.3
	December	183.8	-5.2	122.8	-9.6

Source: Ministry of Finance

Table 24: Japan's Exports by Country, 1978-1982

(in millions of dollars, f.o.b. value basis)

	1978	1979	1980	1981	1982
Total Exports	$97,543	$103,032	$129,807	$152,030	$138,831
Developed Countries	45,674	48,759	61,172	73,668	67,995
United States	24,915	26,403	31,367	38,609	36,330
Canada	1,871	1,738	2,437	3,399	2,861
Western Europe	14,797	16,434	21,503	23,748	21,640
United Kingdom	2,341	3,097	3,782	4,789	4,813
Netherlands	1,599	1,671	2,061	1,902	1,661
Belgium	962	1,087	1,419	1,436	1,155
France	1,103	1,395	2,021	2,222	2,318
West Germany	3,654	4,266	5,756	5,968	5,018
European Community	11,105	12,685	16,650	18,894	17,064
Switzerland	663	749	1,158	1,146	1,017
Australia	2,692	2,607	3,389	4,779	4,581
New Zealand	419	585	676	912	929
South Africa	979	993	1,800	2,222	1,655
Developing Countries	45,219	46,889	59,480	68,848	62,435
Latin America	6,621	6,555	8,918	10,516	9,086
Mexico	639	841	1,224	1,705	976
Panama	1,446	895	1,416	2,210	2,925
Venezuela	771	785	835	925	1,179
Brazil	1,253	1,125	1,115	1,368	1,043
Southeast Asia	23,102	26,128	30,910	34,426	31,873
Korea	6,003	6,247	5,368	5,658	4,881
Taiwan	3,585	4,337	5,146	5,405	4,255
Hong Kong	3,088	3,379	4,761	5,311	4,718
Thailand	1,528	1,714	1,916	2,251	1,907
Singapore	2,325	2,679	3,911	4,468	4,373
Malaysia	1,157	1,507	2,061	2,424	2,502
Brunei	50	76	88	93	145
Philippines	1,546	1,622	1,683	1,928	1,803
Indonesia	2,095	2,124	3,458	4,123	4,261
India	730	780	915	1,197	1,408
Middle East and North Africa	10,745	10,735	14,359	17,732	16,946
Iran	2,691	925	1,530	1,486	935
Iraq	952	1,609	2,169	3,026	2,755
Saudi Arabia	3,254	3,829	4,856	5,876	6,621
Kuwait	774	886	1,273	1,648	1,790
United Arab Emirates	1,015	1,045	1,356	1,494	1,493
Subsaharan Africa	4,444	3,147	4,886	5,760	4,168
Liberia	1,646	931	1,416	1,690	1,009
Nigeria	953	807	1,494	2,159	1,209
Communist Countries	6,650	7,383	9,156	9,514	8,401
China	3,049	3,699	5,078	5,096	3,511
U.S.S.R.	2,502	2,462	2,778	3,259	3,899

Source: Ministry of Finance

Table 25: Japan's Imports by Country, 1978-1982

(in millions of dollars, f.o.b. value basis)

	1978	1979	1980	1981	1982
Total Imports	$79,343	$110,672	$140,528	$143,290	$131,931
Developed Countries	33,050	43,044	49,120	51,336	48,428
United States	14,790	20,431	24,408	25,297	24,179
Canada	3,191	4,105	4,724	4,464	4,441
Western Europe	8,089	10,106	10,437	11,541	10,149
United Kingdom	1,379	1,681	1,954	2,695	1,874
Netherlands	318	419	380	427	347
Belgium	316	381	372	337	338
France	754	1,078	1,296	1,171	1,215
West Germany	1,998	2,584	2,501	2,429	2,355
European Community	6,072	7,581	7,842	8,552	7,560
Switzerland	986	1,033	1,077	1,542	1,233
Australia	5,300	6,298	6,982	7,419	6,961
New Zealand	639	805	828	887	858
South Africa	1,042	1,299	1,741	1,728	1,840
Developing Countries	42,429	62,234	84,733	84,223	76,069
Latin America	3,047	4,517	5,700	6,669	6,268
Mexico	356	483	934	1,437	1,522
Panama	86	179	61	131	107
Venezuela	50	142	691	912	723
Brazil	787	1,240	1,561	1,579	1,603
Southeast Asia	17,294	26,195	31,751	31,930	29,985
Korea	2,591	3,359	2,996	3,389	3,254
Taiwan	1,750	2,476	2,293	2,523	2,443
Hong Kong	498	664	569	669	622
Thailand	843	1,169	1,119	1,061	1,041
Singapore	869	1,473	1,507	1,944	1,826
Malaysia	1,900	3,257	3,471	2,927	3,010
Brunei	1,394	1,891	3,245	2,908	2,636
Philippines	1,058	1,583	1,951	1,731	1,576
Indonesia	5,247	8,794	13,167	13,305	12,005
India	793	1,053	1,014	1,057	1,122
Middle East and North Africa	20,777	29,377	44,500	42,670	37,764
Iran	4,244	4,271	4,101	1,920	2,567
Iraq	777	1,816	4,339	934	780
Saudi Arabia	8,450	12,134	19,538	21,483	20,528
Kuwait	2,482	4,414	3,458	3,609	1,627
United Arab Emirates	2,622	3,633	8,190	8,836	7,983
Subsaharan Africa	945	1,629	2,139	2,405	1,610
Liberia	191	425	338	312	166
Nigeria	8	43	120	340	8
Communist Countries	3,862	5,392	6,669	7,724	7,431
China	2,030	2,955	4,323	5,292	5,352
U.S.S.R.	1,442	1,911	1,860	2,021	1,682

Source: Ministry of Finance

Table 26: Japan's Exports by Commodity, 1978-1982

(in millions of dollars, f.o.b. value basis)

	1978	1979	1980	1981	1982
Total Exports	$97,543	$103,032	$129,807	$152,030	$138,831
Food and Live Animals	950	1,069	1,446	1,583	1,270
Fish and Fish Products	621	608	809	757	681
Beverages and Tobacco	97	138	142	156	131
Crude Materials (excl. fuels)	1,051	1,153	1,355	1,381	1,159
Textile Fibers and Waste	557	561	702	762	619
Mineral Fuels	261	356	504	554	411
Animal and Vegetable Oils and Fats	119	115	114	96	88
Chemicals	5,102	6,100	6,767	6,841	6,365
Chemical Elements and Compounds	2,316	2,822	3,051	2,961	2,751
Organic Chemicals	1,812	2,209	2,276	2,184	2,040
Inorganic Chemicals	498	604	768	767	702
Plastic Materials	1,417	1,675	1,867	1,915	1,798
Manufactured Goods Classified Mainly by Material	23,141	26,140	31,171	33,687	31,100
Tires and Other Rubber Manufactures	970	1,142	1,677	2,002	1,665
Paper and Paper Products	563	717	854	878	846
Textiles (excl. fibers and apparel)	3,827	3,997	5,094	5,833	5,075
Yarn and Thread	758	768	1,150	1,253	1,022
Woven Fabrics	2,582	2,742	3,331	3,937	3,438
Made-up Articles (excl. clothing)	487	487	613	643	615
Nonmetallic Mineral Manufactures	1,379	1,547	1,863	2,122	1,945
Iron and Steel	11,855	14,113	15,454	16,669	15,645
Bars, Rods, Shapes and Sections	1,299	1,955	2,222	2,015	2,116
Wire Rods	602	723	782	539	339
Universals, Plates and Sheets	4,607	5,168	5,388	4,989	4,753
Hoops and Strip	1,481	1,854	1,794	1,402	1,191
Tubes, Pipes and Fittings	3,412	3,915	4,747	7,218	6,795
Nonferrous Metals	1,035	1,139	1,917	1,467	1,282
Copper and Alloys	484	591	1,112	637	590
Metal Manufactures	3,152	3,127	3,947	4,320	4,288
Finished Structural Parts and Structures	709	617	1,006	1,0[illegible]	1,103
Nails and Industrial Fasteners	497	506	508	513	431
Tools	448	476	606	6[illegible]3	551
Machinery and Transport Equipment	55,526	55,284	71,156	86,362	78,069
Nonelectric Machinery	14,187	14,872	18,089	22,628	20,317
Power Generating Machinery	2,375	2,103	2,548	3,174	2,792
Internal Combustion Engines	1,347	1,433	1,787	2,294	1,955
Agricultural Machinery	776	879	918	1,082	930

(continued)

Table 26: Japan's Exports by Commodity, 1978-1982 (continued)

(in millions of dollars, f.o.b. value basis)

	1978	1979	1980	1981	1982
Office Machinery	$ 1,654	$ 1,831	$ 2,280	$ 2,637	$ 3,139
Calculators	635	654	795	629	542
Data-Processing Equipment	340	372	542	873	1,361
Metalworking Machinery	1,265	1,534	1,743	2,071	1,441
Lathes	292	376	524	577	372
Textile Machinery	649	716	871	882	668
Construction and Mining Machinery	808	1,012	1,314	1,722	1,885
Excavators	263	373	502	673	687
Heating and Cooling Machinery	1,261	1,133	1,524	2,554	2,060
Pumps and Centrifuges	1,068	1,035	1,219	1,791	1,495
Mechanical Handling Equipment	935	959	1,313	1,614	1,440
Bearings	423	482	556	590	497
Electric Machinery	13,899	14,690	18,695	22,466	19,718
Electric Power Machinery	1,323	1,243	1,503	2,039	1,787
Generators	427	375	451	645	666
Insulated Wire and Cable	484	583	765	947	826
Telecommunications Equipment	6,604	6,590	8,158	9,801	8,025
Televisions	1,318	1,283	1,660	1,929	1,489
Radios	2,636	2,497	3,009	3,223	2,401
Microphones, Loudspeakers and Amplifiers	808	815	1,044	1,112	739
Household Electric Appliances	781	736	1,055	1,310	1,106
Electronic Tubes and Semiconductors	1,269	1,679	2,307	2,662	2,686
Automotive Electrical Equipment	433	415	515	588	540
Electronic Measuring and Controlling Instruments	378	453	510	604	648
Transport Equipment	27,440	25,721	34,373	41,267	38,033
Railway Equipment	648	520	676	495	519
Road Motor Vehicles	15,531	17,021	23,273	26,521	24,559
Cars	10,617	11,964	16,115	18,445	18,015
Assembled Trucks and Buses	2,885	3,119	4,681	6,069	4,940
Truck and Bus Chassis with Engines	1,960	1,879	2,373	1,896	1,457
Road Motor Vehicle Parts	1,623	1,743	2,015	2,565	2,564
Motorcycles and Parts	2,144	2,190	3,179	3,813	3,062
Ships and Boats	7,173	3,869	4,682	7,274	6,870
Tankers	548	509	986	1,753	1,468
Cargo Ships	4,120	1,972	1,753	2,657	2,924
Miscellaneous Manufactured Goods	10,460	11,563	15,557	19,985	18,723
Clothing	486	351	500	578	547
Scientific, Medical and Optical Instruments	3,448	3,861	4,526	5,512	4,842
Camera Lenses	418	488	551	656	492
Still Cameras	806	901	991	1,091	896
Watches and Clocks	1,277	1,286	1,734	2,014	1,441
Stereo Equipment and Audio and Video Tape Recorders and Players	1,662	2,102	4,066	6,274	6,163
Phonograph Records and Tapes	321	475	683	1,034	1,358
Unclassified Commodities	836	1,114	1,596	1,386	1,516

Source: Ministry of Finance

Table 27: Japan's Imports by Commodity, 1978-1982

(in millions of dollars, c.i.f. value basis)

	1978	1979	1980	1981	1982
Total Imports	$79,343	$110,672	$140,528	$143,290	$131,931
Food and Live Animals	10,786	13,683	13,954	15,122	13,745
Meat and Meat Products	1,296	1,713	1,523	1,927	1,711
Fish and Fish Products	3,017	3,957	3,026	3,653	3,918
Fresh or Frozen Shrimp and Lobster	1,076	1,440	1,106	1,277	1,372
Grains and Cereal Products	3,064	3,719	4,426	4,990	3,960
Wheat	828	1,090	1,229	1,273	1,120
Corn for Mixed Feeds	903	1,088	1,507	1,867	1,381
Sorghum for Mixed Feeds	488	607	591	546	419
Fruits and Vegetables	1,151	1,356	1,387	1,678	1,609
Sugar	592	708	1,225	732	474
Coffee	416	744	757	543	615
Animal Feeds	373	485	586	509	404
Beverages and Tobacco	617	733	712	792	830
Unmanufactured Tobacco	359	358	364	422	446
Crude Materials (excl. fuels)	15,105	21,842	23,458	19,720	18,636
Oilseeds and Oil Nuts	1,572	1,842	1,880	2,018	1,727
Soybeans	1,131	1,272	1,310	1,396	1,156
Rubber	398	552	726	625	451
Logs and Lumber	4,149	7,353	6,909	4,459	4,546
Logs	3,557	6,270	5,680	3,674	3,626
Wood Pulp	535	734	1,079	863	845
Textile Fibers and Waste	2,103	2,449	2,393	2,404	2,327
Wool	598	726	689	688	712
Cotton	1,068	1,264	1,359	1,416	1,271
Crude Minerals	546	716	877	801	816
Metal Ores, Concentrates and Scrap	4,837	6,850	8,430	7,284	6,757
Iron Ore and Concentrates	2,453	2,999	3,449	3,504	3,630
Nonferrous Metal Ores	1,754	2,879	3,731	3,011	2,530
Copper	939	1,512	2,040	1,676	1,419
Nonferrous Scrap	287	479	752	502	333
Mineral Fuels	31,336	45,286	69,991	72,563	65,618
Coal	3,077	3,549	4,458	5,521	5,782
Coking Coal	2,979	3,428	4,083	4,685	4,849
Petroleum and Products	25,706	37,971	57,851	58,674	51,409
Crude Petroleum	23,433	33,471	52,763	53,343	46,274
Petroleum Products	2,273	4,500	5,088	5,331	5,135
Residual Fuel Oil	1,021	2,053	2,215	1,848	1,691
Natural and Manufactured Gas	2,546	3,760	7,671	8,357	8,416
Liquefied Petroleum Gas	1,174	1,744	3,192	3,234	3,219
Animal and Vegetable Oils and Fats	275	354	303	315	275

(continued)

Table 27: Japan's Imports by Commodity, 1978-1982 (continued)

(in millions of dollars, c.i.f. value basis)

	1978	1979	1980	1981	1982
Chemicals	$ 3,763	$ 5,178	$ 6,202	$ 6,487	$ 6,824
Chemical Elements and Compounds	1,514	2,255	2,834	3,028	3,193
Organic Chemicals	884	1,464	1,679	1,847	1,830
Inorganic Chemicals	395	533	642	669	556
Pharmaceuticals	821	924	1,074	1,150	1,249
Plastic Materials	345	507	563	644	672
Manufactured Goods Classified Mainly by Material	6,640	9,411	10,579	10,158	9,848
Wood Manufactures	642	801	1,169	912	813
Wood Chips	508	594	949	745	643
Paper and Paper Products	245	339	502	479	513
Textiles (excl. fibers and apparel)	1,496	2,031	1,650	1,628	1,602
Nonmetallic Mineral Manufactures	984	1,146	1,136	1,118	1,032
Iron and Steel	399	899	894	1,067	1,216
Nonferrous Metals	2,354	3,416	4,480	4,189	3,885
Copper and Alloys	456	741	684	639	611
Aluminum and Alloys	846	1,030	1,611	1,849	1,938
Machinery and Transport Equipment	5,716	7,331	8,756	9,240	8,181
Nonelectric Machinery	2,489	3,196	3,789	3,597	3,777
Power Generating Machinery	387	400	523	488	595
Office Machinery	597	783	1,032	1,027	1,003
Computers, Peripheral Equipment and Parts	550	732	981	967	951
Electric Machinery	1,733	2,364	2,722	2,939	2,994
Electronic Tubes and Semiconductors	435	639	713	789	747
Telecommunications Equipment	282	321	348	411	416
Electronic Measuring and Controlling Instruments	259	399	482	499	542
Transport Equipment	1,494	1,771	2,246	2,703	1,410
Cars	413	575	452	326	348
Aircraft	396	743	991	1,340	800
Ships and Boats	543	254	575	844	78
Miscellaneous Manufactured Goods	3,874	5,214	5,031	5,386	5,398
Clothing	1,235	1,801	1,530	1,802	1,832
Scientific, Medical and Optical Instruments	540	735	802	765	737
Unclassified Commodities	1,231	1,642	1,543	3,509	2,576

Source: Ministry of Finance

Table 28: Yen-Dollar Exchange Rate Used to Convert Customs Clearance Trade Data, 1978-1982*

		Exports	Imports
1978	Average	¥212.18	¥212.17
1979	Average	217.47	217.46
1980	Average	227.67	227.85
1981	Average	219.90	219.94
1982	Average	248.33	248.30
1981	January	203.50	203.99
	February	203.50	203.44
	March	207.76	207.80
	April	212.25	211.99
	May	217.51	217.18
	June	223.99	223.89
	July	226.62	226.55
	August	236.07	236.35
	September	230.27	230.26
	October	229.05	229.15
	November	230.15	230.56
	December	218.18	218.15
1982	January	221.65	221.36
	February	231.73	231.15
	March	237.23	237.03
	April	246.17	246.01
	May	237.28	237.25
	June	244.03	243.66
	July	256.01	256.07
	August	257.59	257.18
	September	258.80	258.60
	October	267.85	268.14
	November	272.48	272.81
	December	249.13	250.33

*Reflects the exchange rate that prevailed at the time export or import contracts were signed.

Source: Ministry of Finance

Table 29: Yen-Dollar Exchange Rate on Tokyo Foreign Exchange Market, 1978-1982*

1978	Average	¥210.40
1979	Average	219.14
1980	Average	226.75
1981	Average	220.54
1982	Average	249.05
1981	January	202.00
	February	205.89
	March	208.82
	April	215.14
	May	220.66
	June	224.20
	July	231.96
	August	233.69
	September	230.02
	October	231.37
	November	223.74
	December	218.94
1982	January	224.59
	February	235.17
	March	240.72
	April	244.86
	May	236.54
	June	251.04
	July	255.12
	August	258.82
	September	262.65
	October	271.40
	November	265.13
	December	242.52

*Inter-bank rates, middle rate, spot market for overnight delivery.

Source: Bank of Japan

Table 30: Japan's Dollar-Based Trade with the United States, 1978-1982

(in millions of dollars, customs clearance basis, seasonally unadjusted)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1978	$24,915	26.4%	$14,790	19.3%	$10,125
1979	26,403	6.0	20,431	38.1	5,972
1980	31,367	18.8	24,408	19.5	6,959
1981	38,609	23.1	25,297	3.6	13,312
1982	36,330	-5.9	24,179	-4.4	12,151
1981 January	2,333	16.7	2,088	14.7	245
February	2,888	19.1	2,152	8.3	736
March	3,172	19.7	2,333	16.3	839
April	3,079	18.7	2,274	11.3	805
May	3,048	21.2	1,938	-11.3	1,111
June	3,257	19.3	2,058	-0.7	1,199
July	3,454	25.7	2,111	0.9	1,343
August	3,090	27.5	1,951	-3.4	1,139
September	3,607	34.3	1,859	-4.3	1,748
October	3,564	26.0	2,033	-2.5	1,531
November	3,284	24.7	2,010	6.1	1,273
December	3,834	22.3	2,491	10.3	1,343
1982 January	2,716	16.4	2,110	1.1	607
February	3,096	7.2	1,940	-9.9	1,156
March	3,247	2.4	2,100	-10.0	1,147
April	3,258	5.8	2,245	-1.3	1,013
May	3,106	1.9	2,009	3.7	1,097
June	3,140	-3.6	2,089	1.5	1,051
July	3,232	-6.4	2,129	0.9	1,103
August	2,704	-12.5	2,011	3.1	692
September	3,202	-11.2	1,913	2.9	1,289
October	2,896	-18.7	1,806	-11.2	1,090
November	2,725	-17.0	1,776	-11.6	949
December	3,009	-21.5	2,051	-17.7	958

Source: Ministry of Finance

Table 31: Japan's Yen-Based Trade with the United States, 1978-1982

(in billions of yen, customs clearance basis, seasonally unadjusted)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1978	¥5,259	-0.6%	¥3,109	-7.4%	¥2,153
1979	5,773	9.8	4,457	43.4	1,316
1980	7,118	23.3	5,558	24.7	1,560
1981	8,519	19.7	5,552	-0.1	2,966
1982	9,015	5.8	5,991	7.9	3,025
1981 January	475	0.0	426	-1.6	49
February	588	0.9	438	-8.4	150
March	659	0.5	485	-2.2	174
April	653	-0.3	482	-6.6	171
May	663	10.9	421	-19.3	242
June	730	20.9	461	0.4	269
July	783	30.7	478	4.8	304
August	729	34.0	461	1.5	268
September	831	41.6	428	0.7	403
October	816	37.1	466	6.4	350
November	756	36.0	463	15.8	292
December	836	25.5	543	12.9	293
1982 January	602	26.7	467	9.6	135
February	718	22.1	449	2.5	269
March	770	16.8	498	2.7	273
April	802	22.8	552	14.5	250
May	737	11.2	477	13.3	260
June	766	4.9	509	10.4	257
July	827	5.6	545	14.0	282
August	697	-4.4	517	12.1	179
September	829	-0.2	495	15.7	334
October	776	-4.9	484	3.9	292
November	743	-1.7	485	4.8	258
December	750	-10.3	514	-5.3	236

Source: Ministry of Finance

Table 32: U.S. International Transactions, 1981-1982

(in millions of dollars, IMF value basis)

	1981	1982(p)
Merchandise Trade Balance	$-27,889	$-36,331
Exports	236,254	211,013
Imports	264,143	247,344
Services Balance	38,968	36,106
Military	-1,541	640
Travel	-788	-2,747
Other Transportation	557	1,414
Investment Income	33,037	28,720
Direct	24,065	18,055
Other	8,972	10,665
Fees and Royalties	6,560	6,807
Other Services	1,142	1,272
Unilateral Transfers Balance	-6,608	-7,868
Current Account Balance	4,471	-8,093
Private Capital Flows (net)	-25,846	-26,084
Direct Investments (net)	12,610	11,623
Banking Flows (net)	-43,269	-43,842
Other Flows (net)	4,813	n.a.
U.S. Government Assets (other than official reserves) (net)	-5,137	-5,766
U.S. Official Reserve Assets	-5,175	-4,965
Foreign Official Reserve Assets	4,785	3,043
Allocations of Special Drawing Rights	1,093	0
Statistical Discrepancy	25,809	41,864

Note: For capital transactions, credits(+) indicate inflows and debits(-) indicate outflows.

Source: U.S. Department of Commerce

Table 33: U.S. Exports and Imports, 1978-1982

(in millions of dollars, exports f.a.s. value basis/imports Customs value basis, seasonally unadjusted)

		Exports*	Change Over Year-Earlier Period	Imports	Change Over Year-Earlier Period	Trade Balance
1978		$143,663	18.5%	$176,052	18.4%	$-32,389
1979		181,816	26.6	210,285	19.4	-28,469
1980		220,783	21.4	245,262	16.6	-24,479
1981		233,739	5.9	260,982	6.4	-27,243
1982		212,275	-9.2	243,952	-6.5	-31,677
1981	January	17,964	9.7	22,559	8.8	-4,595
	February	18,845	11.0	21,110	0.0	-2,265
	March	22,929	16.4	21,348	0.3	1,581
	April	20,512	7.1	22,747	12.8	-2,235
	May	19,989	6.5	21,434	2.8	-1,445
	June	20,262	8.5	22,514	7.5	-2,252
	July	18,569	7.9	20,328	3.8	-1,759
	August	17,766	-1.0	22,589	18.1	-4,823
	September	18,819	5.5	20,715	6.1	-1,896
	October	19,897	-0.3	23,510	14.0	-3,613
	November	19,048	2.3	22,507	13.7	-3,459
	December	19,140	-2.1	19,622	-8.8	-482
1982	January	17,515	-2.5	22,606	0.2	-5,091
	February	17,637	-6.4	18,265	-13.5	-628
	March	20,161	-12.1	20,823	-2.5	-662
	April	18,611	-9.3	17,882	-21.4	729
	May	19,001	-4.9	20,805	-2.9	-1,804
	June	19,416	-4.2	21,811	-3.1	-2,395
	July	17,259	-7.1	19,763	-2.8	-2,504
	August	16,265	-8.4	22,868	1.2	-6,603
	September	16,717	-11.2	20,188	-2.5	-3,471
	October	17,275	-13.2	21,219	-9.7	-3,944
	November	15,695	-17.6	19,002	-15.6	-3,307
	December	16,724	-12.6	18,720	-4.6	-1,996

*Domestic and foreign merchandise, including Department of Defense shipments.

Source: U.S. Department of Commerce

Table 34: U.S. Exports and Imports by Country, 1981-1982

(in millions of dollars, exports f.a.s. value basis/imports Customs value basis)

	Exports		Imports		Trade Balance	
	1981	1982	1981	1982	1981	1982
Total	$233,739	$212,275	$260,982	$243,952	$-27,243	$-31,677
Japan	21,823	20,966	37,655	37,744	-15,832	-16,778
Western Europe	65,377	60,054	51,879	52,346	13,498	7,708
United Kingdom	12,439	10,465	12,846	13,095	-407	-2,630
West Germany	10,277	9,291	11,382	11,975	-1,105	-2,684
Netherlands	8,595	8,604	2,370	2,494	6,225	6,110
France	7,341	7,110	5,854	5,545	1,487	1,565
Belgium-Luxembourg	5,765	5,229	2,297	2,396	3,468	2,833
Italy	5,360	4,616	5,191	5,301	169	-685
Total EC Countries	52,363	47,932	41,647	42,509	10,716	5,423
Spain	3,397	3,456	1,534	1,505	1,863	1,951
Switzerland	3,022	2,707	2,448	2,340	574	367
Sweden	1,842	1,689	1,714	1,993	128	-304
Canada	39,564	33,720	45,912	46,477	-6,348	-12,757
Asia (excl. Japan)	38,413	40,912	52,604	45,139	-14,191	-4,227
Saudi Arabia	7,327	9,026	14,392	7,443	-7,065	1,583
Korea	5,116	5,529	5,227	5,637	-111	-108
Taiwan	4,305	4,367	8,072	8,893	-3,767	-4,526
Singapore	3,003	3,214	2,114	2,195	889	1,019
Hong Kong	2,635	2,453	5,389	5,540	-2,754	-3,087
Israel	2,521	2,271	1,243	1,164	1,278	1,107
Indonesia	1,302	2,025	6,022	4,224	-4,720	-2,199
Philippines	1,787	1,854	1,974	1,806	-187	48
Malaysia	1,537	1,736	2,185	1,885	-648	-149
India	1,748	1,599	1,202	1,404	546	195
United Arab Emirates	1,077	1,101	1,993	2,032	-916	-931
Western Hemisphere (excl. Canada)	42,102	33,592	39,055	37,990	3,047	-4,398
Mexico	17,789	11,817	13,799	15,566	3,990	-3,749
Venezuela	5,445	5,206	5,566	4,768	-121	438
Brazil	3,798	3,423	4,470	4,285	-672	-862
Colombia	1,771	1,903	822	801	949	1,102
Argentina	2,192	1,294	1,125	1,128	1,067	166
Peru	1,486	1,117	1,223	1,099	263	18
Africa	11,097	10,271	27,068	17,770	-15,971	-7,499
Egypt	2,159	2,875	397	547	1,762	2,328
South Africa	2,912	2,368	2,445	1,967	467	401
Nigeria	1,523	1,295	9,249	7,045	-7,726	-5,750
Australia and Oceania	6,436	5,700	3,351	3,131	3,085	2,569
Australia	5,242	4,535	2,464	2,287	2,778	2,248
Eastern Europe	4,338	3,610	1,555	1,067	2,783	2,543
Soviet Union	2,431	2,587	347	228	2,084	2,359
Communist Countries in Asia	3,613	2,945	1,900	2,287	1,713	658
China	3,603	2,912	1,895	2,284	1,708	628

Source: U.S. Department of Commerce

Table 35: U.S. Exports by Commodity, 1981-1982

(in millions of dollars, f.a.s. value basis)

	1981	1982
Total Exports*	$228,961	$207,158
Agricultural Commodities	43,338	36,623
Nonagricultural Commodities	185,623	170,535
Food and Live Animals	30,291	23,950
Meat and Meat Products	1,482	1,265
Fish and Fish Products	1,083	995
Grain and Cereal Products	19,457	14,747
Wheat	7,844	6,676
Corn	8,014	5,683
Sorghum	1,174	720
Rice	1,526	997
Vegetables and Fruit	3,314	2,716
Animal Feeds	2,739	2,473
Beverages and Tobacco	2,915	3,026
Unmanufactured Tobacco	1,458	1,547
Cigarettes	1,229	1,235
Inedible Crude Materials	20,993	19,248
Hides and Skins	700	738
Soybeans	6,200	6,244
Logs and Lumber	2,059	2,095
Paper Base Stocks	2,315	1,964
Raw Cotton	2,260	1,955
Steel Scrap	639	610
Nonferrous Ores and Scrap	1,835	1,413
Mineral Fuels	10,279	12,729
Bituminous Coal	5,806	5,934
Petroleum and Products	3,696	5,947
Animal and Vegetable Oils and Fats	1,750	1,541
Chemicals	21,187	19,891
Chemical Elements and Compounds	9,202	8,541
Organic Chemicals	5,929	5,440
Inorganic Chemicals	3,274	3,101
Pharmaceuticals	2,165	2,275
Fertilizers	1,735	1,386
Plastic Materials	3,809	3,650
Manufactured Goods Classified Chiefly by Material	20,633	16,739
Paper and Paper Products	2,961	2,653
Textiles (excl. clothing)	3,619	2,784
Nonmetallic Mineral Products	2,194	1,805
Steel Mill Products	$ 2,801	$ 2,101
Nonferrous Metals and Alloys	2,046	1,768
Metal Manufactures	4,769	3,981
Machinery and Transport Equipment	95,736	87,148
Machinery	62,946	59,324
Power Generating Machinery	9,465	9,461
Aircraft Engines and Parts	2,348	2,570
Automotive Engines and Parts	1,975	1,955
Agricultural Machinery and Parts and Tractors	3,523	2,389
Construction Equipment and Parts	1,823	1,254
Mining Machinery and Parts	4,073	4,905
Printing and Bookbinding Machinery and Parts	729	600
Metalworking Machinery	2,158	1,611
Heating and Cooling Machinery	2,524	2,291
Pumps and Parts	1,182	1,184
Centrifuges and Filtering and Purifying Machinery and Parts	803	774
Office Machinery and Computers	9,810	10,206
Computers and Parts	5,157	5,349
Telecommunications Equipment	3,856	3,864
Electric Machinery and Parts	11,494	11,285
Electric Power Apparatus and Switchgear	2,495	2,434
Household Appliances	841	673
Transport Equipment	32,791	27,824
Passenger Cars	3,920	2,860
Trucks and Buses	2,149	1,765
Car and Truck Parts	3,157	3,039
Tractor Parts	1,481	1,156
Commercial Aircraft	8,613	4,848
Military Aircraft	1,712	2,388
Aircraft Parts	4,286	4,401
Ships, Boats and Floating Structures	965	1,302
Miscellaneous Manufactured Goods	16,748	15,961
Clothing	1,232	952
Professional, Scientific and Medical Equipment and Measuring and Controlling Instruments	5,980	6,003
Photographic Supplies	1,501	1,396
Printed Material	1,297	1,341
Toys and Sporting Goods	1,072	957
Musical Instruments and Parts	952	942
Unclassified Commodities	8,428	6,924

*Domestic merchandise only, including Department of Defense shipments.

Source: U.S. Department of Commerce

Table 36: U.S. Imports by Commodity, 1981-1982

(in millions of dollars, Customs value basis)

	1981	1982
Total Imports	$260,982	$243,952
Agricultural Commodities	16,978	15,422
Nonagricultural Commodities	244,004	228,530
Food and Live Animals	15,211	14,453
Meat and Meat Products	1,994	2,075
Fish and Fish Products	2,961	3,143
Vegetables and Fruit	2,572	2,816
Sugar	2,141	863
Coffee	2,623	2,730
Beverages and Tobacco	3,139	3,364
Alcoholic Beverages	2,398	2,513
Inedible Crude Materials	11,033	8,589
Crude Rubber	778	535
Lumber	1,925	1,737
Paper Base Stocks	1,798	1,522
Iron Ore and Concentrates	948	497
Nonferrous Ores and Concentrates	2,032	1,552
Mineral Fuels	81,360	65,409
Petroleum and Petroleum Products	75,554	59,396
Crude Petroleum	61,933	45,862
Petroleum Products	13,622	13,535
Fuel Oil	9,224	8,440
Natural and Manufactured Gas	5,689	5,934
Animal and Vegetable Oils and Fats	479	406
Chemicals	9,322	9,494
Chemical Elements and Compounds	5,287	5,605
Organic Chemicals	2,975	2,960
Inorganic Chemicals	2,313	2,645
Pharmaceuticals	583	563
Fertilizers	1,102	963
Manufactured Goods Classified Chiefly by Material	37,224	33,148
Tires and Tubes	1,330	1,239
Plywood and Veneers	704	544
Paper and Paper Products	3,822	3,848
Textiles (excl. clothing)	3,043	2,808
Glass, Glassware and Tableware	$ 1,337	$ 1,351
Gem Diamonds	2,198	1,917
Steel Mill Products	10,377	9,184
Wire Rods and Bars	1,752	1,469
Plates and Sheets	3,011	2,543
Tubes, Pipes and Fittings	4,846	4,466
Nonferrous Metals and Alloys	6,948	5,321
Precious Metals	1,581	1,301
Copper and Alloys	1,278	988
Aluminum and Alloys	1,354	1,336
Metal Manufactures	4,164	4,294
Machinery and Transport Equipment	69,679	73,320
Machinery	38,319	39,457
Power Generating Machinery (incl. engines)	4,582	4,533
Agricultural Machinery and Tractors	1,280	1,042
Textile Machinery	974	925
Metalworking Machinery	1,996	1,879
Office Machinery and Computers	3,575	4,299
Telecommunications Equipment	8,947	9,051
Radio Sets	701	712
Television Sets	1,529	1,428
Phonographs and Audio and Video Recorders	2,090	2,047
Electrical Machinery and Parts	9,215	10,281
Transport Equipment	31,360	33,863
Road Motor Vehicles	22,065	24,989
Passenger Cars	17,514	19,757
Automotive Parts (excl. engines, tires and electrical parts)	4,081	4,372
Motorcycles and Parts	1,374	1,118
Aircraft and Parts	2,585	2,481
Miscellaneous Manufactured Goods	26,249	28,061
Clothing	7,479	8,165
Footwear	3,146	3,438
Professional, Scientific and Controlling Instruments	1,663	1,692
Clocks and Watches	1,277	991
Printed Matter	623	664
Toys and Sporting Goods	2,168	2,786
Art Works and Antiques	2,056	2,024
Unclassified Commodities	7,284	7,708

Source: U.S. Department of Commerce

Table 37: U.S. Trade with Japan, 1978-1982

(in millions of dollars, f.a.s. value basis*, seasonally unadjusted)

		Exports**	Change Over Year-Earlier Period	Imports	Change Over Year-Earlier Period	Trade Balance
1978		$12,885	22.4%	$24,458	31.8%	$-11,573
1979		17,579	36.4	26,243	7.3	-8,664
1980		20,790	18.3	30,714	17.0	-9,924
1981		21,823	5.0	37,612	22.5	-15,789
1982		20,966	-3.9	37,744	0.4	-16,778
1981	January	1,742	14.2	3,196	28.0	-1,454
	February	1,746	5.8	2,341	4.0	-595
	March	2,161	19.4	3,053	28.0	-892
	April	1,756	-4.7	3,223	25.7	-1,467
	May	1,595	-0.3	3,031	14.1	-1,436
	June	1,787	-0.1	3,148	17.6	-1,361
	July	1,900	10.6	3,141	20.2	-1,241
	August	1,594	-9.0	3,543	39.4	-1,949
	September	1,678	-0.2	2,910	10.1	-1,232
	October	1,859	3.3	3,699	44.0	-1,840
	November	1,940	8.2	3,327	28.4	-1,387
	December	2,065	12.9	3,002	10.6	-937
1982	January	1,786	2.5	3,720	16.4	-1,934
	February	1,706	-2.3	2,708	15.7	-1,002
	March	1,862	-13.8	3,587	17.5	-1,725
	April	1,575	-10.3	2,790	-13.4	-1,215
	May	1,710	7.2	3,759	24.0	-2,049
	June	1,829	2.4	3,117	2.8	-1,288
	July	1,776	-6.5	2,888	-8.3	-1,112
	August	1,732	8.7	3,815	7.7	-2,083
	September	1,568	-6.6	2,904	-0.2	-1,336
	October	1,804	-3.0	3,274	-11.5	-1,470
	November	1,815	-6.4	2,695	-19.0	-880
	December	1,803	-12.7	2,486	-17.2	-683

*Customs import value, not f.a.s. value, is used as the valuation basis for 1982 imports. The difference between the two valuation bases is negligible.

**Domestic and foreign merchandise, including Department of Defense shipments.

Source: U.S. Department of Commerce

Table 38: U.S. Exports to Japan by Commodity, 1981-1982

(in millions of dollars, f.a.s. value basis)

	1981	1982
Total Exports to Japan*	$21,515	$20,665
Agricultural Commodities	6,562	5,547
Nonagricultural Commodities	14,953	15,118
Food and Live Animals	4,712	3,944
Meat and Meat Products	502	530
Fish and Fish Products	553	600
Grain and Cereal Products	2,876	2,107
Wheat	615	564
Corn	1,792	1,290
Sorghum	410	208
Vegetables and Fruit	445	401
Animal Feeds	152	140
Beverages and Tobacco	392	400
Unmanufactured Tobacco	302	310
Cigarettes	74	67
Inedible Crude Materials	4,407	4,054
Hides and Skins	281	228
Soybeans	1,139	971
Logs and Lumber	1,021	1,045
Paper Base Stocks	549	488
Raw Cotton	504	501
Steel Scrap	118	145
Nonferrous Ores and Scrap	503	367
Mineral Fuels	2,097	2,440
Bituminous Coal	1,472	1,525
Petroleum Products	291	621
Animal and Vegetable Oils and Fats	91	83
Chemicals	2,349	2,530
Chemical Elements and Compounds	1,215	1,303
Organic Chemicals	686	665
Inorganic Chemicals	529	638
Pharmaceuticals	430	489
Fertilizers	65	96
Plastic Materials	290	308
Manufactured Goods Classified Chiefly by Material	$1,394	$1,320
Paper and Paper Products	260	263
Textiles (excl. clothing)	124	106
Nonmetallic Mineral Products	127	117
Nonferrous Metals and Alloys	443	447
Aluminum and Alloys	399	416
Metal Manufactures	151	174
Machinery and Transport Equipment	4,405	4,090
Machinery	2,902	3,015
Power Generating Machinery	342	331
Aircraft Engines and Parts	150	177
Agricultural Machinery and Parts and Tractors	38	28
Mining Machinery and Parts	168	254
Metalworking Machinery	94	90
Heating and Cooling Equipment	88	78
Centrifuges and Filtering and Purifying Machinery and Parts	67	62
Office Machinery and Computers	759	838
Computers and Parts	402	408
Telecommunications Equipment	182	174
Electrical Machinery and Parts	601	618
Electric Power Apparatus and Switchgear	120	121
Transport Equipment	1,504	1,075
Road Motor Vehicles and Parts	173	148
Passenger Cars	47	44
Aircraft and Parts	1,310	906
Commercial Aircraft	815	421
Aircraft Parts	487	468
Miscellaneous Manufactured Goods	1,377	1,410
Clothing	85	65
Professional, Scientific and Medical Equipment and Measuring and Controlling Instruments	537	549
Photographic Supplies	206	202
Toys and Sporting Goods	118	162
Musical Instruments and Parts	92	85
Unclassified Commodities	111	96

*Domestic merchandise only, including Department of Defense shipments, which totaled $182 million in 1981 and $299 million in 1982.

Source: U.S. Department of Commerce

Table 39: U.S. Imports from Japan by Commodity, 1981-1982

(in millions of dollars, f.a.s./Customs value basis*)

	1981	1982
Total Imports from Japan	$37,612	$37,744
Agricultural Commodities	120	129
Nonagricultural Commodities	37,492	37,615
Food and Live Animals	265	278
Fish and Fish Products	186	192
Beverages and Tobacco	15	16
Inedible Crude Materials	62	57
Mineral Fuels	23	21
Animal and Vegetable Oils and Fats	6	6
Chemicals	956	879
Chemical Elements and Compounds	498	464
Organic Chemicals	412	368
Inorganic Chemicals	87	95
Pharmaceuticals	78	68
Manufactured Goods Classified Chiefly by Material	6,952	6,830
Tires and Tubes	377	376
Plywood and Veneers	49	35
Paper and Paper Products	58	54
Textiles (excl. clothing)	513	528
Glass, Glassware and Tableware	400	349
Steel Mill Products	3,801	3,586
Wire Rods and Bars	502	403
Plates and Sheets	901	763
Tubes, Pipes and Fittings	2,256	2,263
Nonferrous Metals and Alloys	318	315
Copper and Alloys	$ 103	$ 79
Aluminum and Alloys	47	178
Metal Manufactures	1,140	1,334
Machinery and Transport Equipment	25,522	25,735
Machinery	11,856	12,357
Power Generating Machinery (incl. engines)	688	714
Agricultural Machinery and Tractors	186	186
Textile Machinery	196	158
Metalworking Machinery	789	735
Office Machinery and Computers	1,656	2,102
Telecommunications Equipment	4,783	4,707
Radio Sets	271	255
Television Sets	446	431
Phonographs and Audio and Video Recorders	1,762	1,717
Transport Equipment	13,667	13,379
Road Motor Vehicles	11,494	11,388
Passenger Cars	9,324	9,169
Automotive Parts (excl. engines, tires and electrical parts)	487	565
Motorcycles and Parts	1,297	1,069
Aircraft and Parts	131	162
Miscellaneous Manufactured Goods	3,480	3,505
Clothing	278	256
Professional, Scientific and Controlling Instruments	414	419
Clocks and Watches	419	307
Printed Matter	79	84
Toys and Sporting Goods	324	464
Unclassified Commodities	331	417

*Imports are valued on a f.a.s. basis in 1981 and on a Customs basis in 1982. The difference between the two valuation bases is negligible.

Source: U.S. Department of Commerce

Table 40: U.S. Direct Investment Position Abroad, Yearend 1977-1981

(in millions of dollars)

	1977	1978	1979	1980	1981
Developed Countries	$110,120	$121,230	$139,477	$158,350	$167,112
Canada	35,200	37,071	40,243	44,978	46,957
United Kingdom	17,434	20,416	23,539	28,605	30,086
West Germany	11,071	12,731	13,521	15,418	16,077
Switzerland	6,101	7,394	9,699	11,280	12,437
France	6,090	6,806	8,024	9,348	9,102
Australia	5,739	6,441	7,165	7,662	8,779
Netherlands	4,048	4,685	6,910	8,138	8,775
Belgium-Luxembourg	4,322	4,555	6,390	6,911	6,902
Japan	4,143	4,972	6,208	6,243	6,807
Italy	3,016	3,595	4,381	5,399	5,356
Developing Countries	31,800	37,584	44,680	53,277	56,109
International/Unallocated	4,070	3,913	3,700	3,951	4,122
Total	145,990	162,727	187,858	215,578	227,342
of which:					
Petroleum	28,030	30,532	39,128	47,595	52,107
Manufacturing	62,019	69,669	79,023	89,160	92,480
Other	55,941	62,526	69,707	78,822	82,756

Source: U.S. Department of Commerce

Table 41: U.S. Direct Investment Position in Japan, Yearend 1977-1981

(in millions of dollars)

	1977	1978	1979	1980	1981
Total	$4,143	$4,972	$6,208	$6,243	$6,807
Mining	0	0	0	0	0
Petroleum	1,589	1,694	1,906	1,570	1,737
Manufacturing	1,903	2,309	2,775	2,971	3,277
Food Products	125	142	171	162	192
Chemicals	406	497	670	700	781
Metals	8	5	67	82	82
Nonelectric Machinery	999	1,272	1,245	1,141	1,188
Electric Machinery				202	228
Transport Equipment	160	*	251	260	304
Other	205	*	370	425	501
Trade	421	585	1,040	1,115	1,225
Banking	151	231	160	*	*
Finance, Insurance and Real Estate				186	217
Other	80	153	*	*	*

*Suppressed to avoid disclosure of data on individual companies.

Source: U.S. Department of Commerce

Table 42: Foreign Direct Investment Position in the United States, Yearend 1977-1981

(in millions of dollars)

	1977	1978	1979	1980	1981
Netherlands	$ 7,830	$10,078	$12,672	$16,909	$20,177
United Kingdom	6,397	7,638	9,796	12,242	15,527
Canada	5,650	6,180	7,154	10,074	12,212
West Germany	2,529	3,654	5,665	5,402	7,067
Japan	1,755	2,749	3,493	4,225	6,887
France	1,800	1,978	2,289	2,960	5,844
Switzerland	2,631	2,879	3,449	3,870	4,368
Belgium-Luxembourg	1,163	1,303	1,567	1,917	2,176
OPEC Countries	256	366	385	664	3,528
Total	34,595	42,471	54,462	68,351	89,759
of which:					
Petroleum	6,573	7,762	9,906	12,363	17,813
Manufacturing	14,030	17,202	20,876	25,159	29,533
Trade	7,237	9,161	11,562	14,296	17,734
Insurance	2,318	2,773	4,148	5,365	5,896
Other	4,437	5,573	7,971	11,168	18,783

Source: U.S. Department of Commerce

Table 43: Japan's Foreign Direct Investment Position in the United States, Yearend 1977-1981

(in millions of dollars)

	1977	1978	1979	1980	1981
Total	$1,755	$2,749	$3,493	$4,225	$6,887
Petroleum	48	n.a.	160	58	7
Manufacturing	332	474	696	837	1,111
Food Products	19	27	29	26	57
Chemicals	81	103	202	227	266
Metals	n.a.	176	223	240	262
Machinery	n.a.	69	125	176	319
Other	99	100	117	169	207
Trade	611	1,522	1,767	2,307	4,128
Finance	514	575	638	645	1,093
Insurance	38	n.a.	61	142	217
Real Estate	30	45	68	102	131
Other	-18	7	102	134	201

Source: U.S. Department of Commerce